Designing Ukraine’s Recovery in the Spirit of the Marshall Plan

Principles, Architecture, Financing, Accountability: Recommendations for Donor Countries
<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbreviations</td>
<td>2</td>
</tr>
<tr>
<td>Foreword</td>
<td>3</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>4</td>
</tr>
<tr>
<td>Recommendations</td>
<td>6</td>
</tr>
<tr>
<td>Preconditions and Goals</td>
<td>8</td>
</tr>
<tr>
<td>Architecture</td>
<td>14</td>
</tr>
<tr>
<td>Sequencing</td>
<td>21</td>
</tr>
<tr>
<td>Financing</td>
<td>26</td>
</tr>
<tr>
<td>Russian Assets</td>
<td>32</td>
</tr>
<tr>
<td>Accountability and Rule of Law</td>
<td>35</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>CSO</td>
<td>civil society organization</td>
</tr>
<tr>
<td>EPPO</td>
<td>European Public Prosecutor's Office</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>G7</td>
<td>group of large, advanced economies and liberal democracies</td>
</tr>
<tr>
<td>GMF</td>
<td>German Marshall Fund of the United States</td>
</tr>
<tr>
<td>IFI</td>
<td>international financial institution</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
</tr>
<tr>
<td>NRP</td>
<td>Ukraine's National Recovery Plan</td>
</tr>
<tr>
<td>RecoverUkraine</td>
<td>proposed donor platform</td>
</tr>
</tbody>
</table>
US Secretary of State George C. Marshall, speaking at Harvard University 75 years ago, laid out a plan that combined aid to war-ravaged European countries with the strategic goal of building an alliance against Soviet expansionism.

West German Chancellor Willy Brandt, speaking at Harvard University 50 years ago, presented the idea of the German Marshall Fund of the United States (GMF) as a gift to the American people, a sign of gratitude by the German people and a living memorial to the original Marshall Plan.

Today, the idea of another Marshall Plan is in the air. For the first time since 1947, a project for an expansive recovery effort on the European continent is needed and realistic. Russian President Vladimir Putin’s war of aggression against Ukraine, with daily widespread devastation in the name of his neo-imperial plan, cries out for a strong, creative response by the global community of democracies. The vision of a free and democratic, modernized and European Ukraine is the answer to Putin’s challenge.

For decades, the German Marshall Fund of the United States (GMF) has supported the idea of a Europe whole, free, and at peace. It has supported the strengthening of civil society across Central and Eastern Europe. It has helped to generate and circulate ideas that honor the concept of enlightened self-interest and promote a collaborative, rules-based international order. At the core of GMF’s work has always been the belief that the transatlantic community is stronger together.

In July 2022, at an international conference in Lugano, Ukraine presented its National Recovery Plan. So far, its democratic partners have not responded in kind by agreeing on a plan to help the country rebuild after the war, leaving a void.

This paper is an effort by GMF to help fill this void and to stimulate the debate about a meaningful Western plan for Ukraine’s recovery. It is not a full blueprint for such an effort but a structured collection of recommendations for donor governments and international institutions. It limits itself to the challenges of designing and implementing such a plan and does not comment on Ukraine’s National Recovery Plan. GMF hopes to follow this up with a broader, more comprehensive publication later in 2022 that will cover areas that this paper only touches upon, such as the role of civil society in the recovery process.

In the preparation of this paper, a GMF team organized workshops and conducted extensive research and interviews to generate and collect ideas. The team led by Thomas Kleine-Brockhoff also consisted of Ronja Ganster, Jacob Kirkegaard, and Bruce Stokes.

This team owes a debt of gratitude to dozens of experts, including heads of international institutions, in the United States and in European Union countries, and at the European Commission. They all allowed the authors to interview them and spent considerable time with them during a period of significant professional demands.

While this paper focuses on donor challenges, Ukrainian expertise is a crucial contribution. Former members of parliament, economic experts inside and outside the government, and Ukrainian representatives at international financial institutions were very supportive and generous with their time.

Finally, several reviewers have significantly improved this paper (while not necessarily agreeing with every recommendation), especially Doug Rediker of the Brookings Institution, Hlib Vyshlinsky of the Centre for Economic Strategy in Kyiv, and Nico Lange, a Berlin-based Ukraine specialist. They were all indispensable.
The Marshall Plan is a source of inspiration and a fountain of hope for Ukraine’s recovery; evoking it is a marker of ambition. Yet, it cannot be a template for the international aspiration to help rebuild the country. A plan for Ukraine needs to take a 21st century shape. In the late 1940s, there was one hegemon and a set of newly built institutions to aid more than a dozen ailing current and future allies. Today, many countries are needed to help one. This necessitates utilizing and adapting existing aid mechanisms.

Architecture
Given the complexity of this effort, strong leadership is essential. Unlike other blueprints, this paper does not foresee the European Commission leading the recovery in partnership with Ukraine’s government, because Brussels has neither the necessary political nor the financial heft. Instead, the G7 countries should lead the recovery effort and encourage other countries to participate in this RecoverUkraine platform. Together with Ukraine, the G7 countries should appoint a strong recovery coordinator to lead this effort and liaise between Ukraine’s government, the international financial institutions (IFIs), and the G7 members. The first coordinator should be an American with a global stature. This is because only the United States will be able to bring together the needed global coalition and forge consensus among Ukraine’s partners. The coordinator should build a recovery task force partnering with Ukraine and hosted and supported by the European Commission, reflecting the growing role of the EU in the recovery process as Ukraine moves forward on the path of integration and eventual membership.

The G7 should underscore its joint stakeholdership in the form of a high-level agreement reflecting the connection between Ukraine’s security and recovery and pledging to assist the country in both—though at an asymmetrical level of support with the United States investing more in security and the other G7 members investing more in recovery. In doing so, cohesion among Ukraine’s partners and allies will be greatly enhanced.

A sequenced approach with a gradual ramping up of activity should be adopted for the recovery process. It should have four phases: relief, reconstruction, modernization, and accession to the EU. Relief will involve emergency aid and basic rehabilitation as the war continues. Reconstruction will entail the rapid response to the destruction caused by the war after a ceasefire or settlement has been reached, focusing on infrastructure and mobilization of market mechanisms. Modernization is the “build-back better” phase, attracting foreign direct investment to shape a new economy and a new country that is more digital, more ecological, more democratic, and more EU-oriented. The accession phase foresees investments that are more about aligning the country with its future EU peers. The non-EU international effort will be frontloaded in expectation that the interest of the international community in helping Ukraine can be expected to wane over time while the EU’s political and financial commitment will only increase.

The creation of a new aid agency or centralized trust fund for donors is neither realistic nor advisable. Instead, the G7 and other partner countries should work through the multi-donor funds of their preferred IFI, mobilizing the strengths of different development banks and using off-the-shelf solutions to respond to this urgent need. The recovery coordinator, endowed with autonomy and authority by the G7, will need to help align conditionality principles and oversight requirements.
Financing

The size of the investment necessary for Ukraine’s reconstruction is still unclear due to the fog of war. Preliminary estimates have the cost of rebuilding the damaged Ukrainian infrastructure at more than $100 billion, a sum that is manageable for donors when spread out over years. But in-kind support, guarantees, and loans will not suffice. With continuing security challenges, Ukraine will not be “investable” soon and contributions need to be weighted toward grants. These can be available quickly, allow for greater discretion in their use, and do not harm Ukraine’s creditworthiness.

EU countries will have to make decisions about the scale and nature of their contribution soon. They can opt for a combination of direct EU budget grants; bilateral member-state loans, grants and guarantees; and ultra-long-term concessionary-term common loans. Commonly financed grants will be controversial in some member states. An increase of the relative weight of member state’s bilateral contributions or a renegotiation of the EU’s Multiannual Financial Framework will be similarly controversial. EU leaders should neither avoid nor protract this debate because other international donors, the United States first among them, will likely condition and scale their participation based on the EU’s financial lead.

The most important way to unlock the potential of private capital and thus for foreign direct investment to flow into Ukraine would be the introduction of a “war insurance” for certain private investments, backed by guarantees from international donors.

Given the scale of the potential financial commitment, unusual funding sources should be considered. The seizure of frozen Russian assets could be a meaningful contribution to funding for Ukraine, but only in the long term. While it may require a new legal basis in most donor countries and therefore take time to implement, the seizure of the frozen assets of Russia’s central bank—currently amounting to $300 billion—is a promising and consequential option. Russian retaliation will be a risk, however, and the danger of setting an unwanted precedent needs to be managed. Seizing frozen Russian private property is less of an option because it would likely be mired in legal controversy for years.

Accountability and Rule of Law

Aid to Ukraine needs to come with strings attached, especially at the projected scale and to the benefit of a country with a history of corruption. Strengthening the rule of law has an outsized significance for the recovery of Ukraine. The disbursement of reconstruction funds should be contingent on the country successfully implementing and enforcing long-standing rule of law and judicial reforms during the initial relief phase. These reforms are outlined in the European Commission opinion on Ukraine’s application for membership of the EU. Also, the EU should invite Ukraine to join the European Public Prosecutor’s Office at the earliest possible time. Membership in this body would add a level of EU oversight and contribute to Ukraine’s alignment with EU judicial standards.

An independent inspector general should be appointed, whose office would investigate accusations of misconduct and contribute to the efficient use of funds. The RecoverUkraine platform should make transparency a guiding principle of the recovery process—allowing citizens’ oversight via free media, the private sector, and civil society, which should be invited to play a role from day one.

Immediate Needs

While planning for reconstruction should proceed, successfully concluding the war and keeping Ukraine from failing need to take precedence. Planning must not distract from the urgency of prompt support, from macro-financial assistance to military aid. Ukraine’s recovery planning should not be used by its partners as an excuse for not doing what is necessary as the war goes on.
## Preconditions and Goals

<table>
<thead>
<tr>
<th>1</th>
<th>History Inspires</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Marshall Plan</strong> is a source of inspiration for ambitious Ukraine aid, but a 21st century plan should adapt, not build, aid institutions.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>Support Ukraine Now</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term planning is necessary but should not distract from the immediate need to help Ukraine end the war on favorable terms.</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3</th>
<th>Share the Burden</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A high-level international agreement connecting security and recovery in Ukraine is needed.</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4</th>
<th>Final Destination EU</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The goal of recovery is for Ukraine to find its place among market-oriented democracies and, ultimately, the EU.</strong></td>
<td></td>
</tr>
</tbody>
</table>

## Architecture

<table>
<thead>
<tr>
<th>5</th>
<th>Build a RecoverUkraine Platform</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>An international platform to finance and manage recovery should be built, to be inclusive, accessible, and offer a low threshold of entry for donors.</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6</th>
<th>Recovery Needs Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The RecoverUkraine platform should be led by a recovery coordinator, initially a high-stature American, appointed by the G7 and Ukraine.</strong></td>
<td></td>
</tr>
</tbody>
</table>

## Sequencing

<table>
<thead>
<tr>
<th>9</th>
<th>Ramp Up Gradually</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic relief cannot wait; it is needed while the war continues.</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10</th>
<th>Be Patient Even if It Is Hard</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The ongoing war greatly complicates economic planning and requires delaying decisions on long term modernization projects.</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>11</th>
<th>Recover in Four Stages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recovery should consist of four stages: relief, reconstruction, modernization, and accession to the EU.</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>12</th>
<th>Prioritize Wartime Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ukraine’s financial emergency as the war continues may require another IMF program in 2022.</strong></td>
<td></td>
</tr>
<tr>
<td>Financing</td>
<td>Russian Assets</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------</td>
</tr>
<tr>
<td>13 Recognize Limits</td>
<td>17 No Impunity</td>
</tr>
<tr>
<td>The total bill for recovery is unknowable during an ongoing war. Donors should avoid creating false certainties and raising false hopes.</td>
<td>Russia should be made to fund some of Ukraine’s recovery costs.</td>
</tr>
<tr>
<td>14 Grants First</td>
<td>18 Seizing Assets Takes Time</td>
</tr>
<tr>
<td>Donor assistance should be strongly weighted toward grants.</td>
<td>Seized Russian central bank assets can only become a partial funding source for Ukraine’s recovery, and only in the long term.</td>
</tr>
<tr>
<td>15 Enable Private Investment</td>
<td>19 Rule of Law Reforms Come First</td>
</tr>
<tr>
<td>A “war insurance” consisting of sovereign guarantees for certain private investments should be introduced.</td>
<td>The first tranche of long-term reconstruction funds should be contingent upon Ukraine implementing initial rule of law reforms.</td>
</tr>
<tr>
<td>16 Be Transparent</td>
<td>20 Funding Only with Strings Attached</td>
</tr>
<tr>
<td>For their taxpayers’ sake, donor countries and the EU should embrace a vigorous and transparent debate about the scale of their commitment.</td>
<td>The recovery coordinator should coordinate conditionality principles between funders and monitor reform progress.</td>
</tr>
</tbody>
</table>
PRECONDITIONS AND GOALS
History Inspires: 
The Marshall Plan is a source of inspiration for ambitious Ukraine aid, but a 21st century plan should adapt, not build, aid institutions.

The original Marshall Plan helped provide the foundation for Western Europe’s economic recovery following the Second World War and served as an anchor for democracies led by the United States during the Cold War. Today’s desire to help Ukraine resist Russia’s aggression and its eventual economic and political recovery naturally draws inspiration from the success of the Marshall Plan after 1947.

Often, significant global challenges are answered with a call for a Marshall Plan to address vexing issues. Yet, nothing matching its scope has ever materialized again. The case of Ukraine is very likely to be different. The Marshall Plan was not just an aid program; it responded to a geopolitical challenge in the spirit of enlightened self-interest. It did not just seek economic recovery but also democratic stabilization. It aimed to counter Soviet expansionism and combined aid with security guarantees in the newly founded NATO alliance.

The geopolitical similarities with Ukraine’s case are striking. These will likely ensure significant ambition on the part of Ukraine’s Western partners. The Marshall Plan is certain to be a beacon for the recovery effort, serving as motivation and source of hope. Yet, for all the similarities, it cannot be a template for addressing the current challenge, primarily for two reasons.

First, the Marshall Plan was initiated with assistance provided exclusively by the sole superpower of the time, the United States. It had one donor and many recipients. The situation today is the inverse as many governments and institutions are providing support to a single recipient in Ukraine. This makes real-time coordination of assistance and strong leadership essential and urgent.

Second, the post-Second World War world had few international institutions and support mechanisms. The Marshall Plan created its own institutions and tailor-made solutions. In this regard, too, the situation is the inverse today: a host of countries and international financial institutions (IFIs) stand ready to assist Ukraine, offering multiple tools, instruments, mechanisms, and reporting and accountability standards. Because of this, however, aid provision will be complicated without coordination and leadership.

Unlike at the launch of the Marshall Plan in 1947, the centralization of assistance or the creation of new institutions are not necessary and not advisable for Ukraine’s recovery. It will be better to utilize and adapt existing instruments to advance and sustain it.
Ukraine is fighting for its survival against a larger and better equipped aggressor. For it to have the future it chooses, it must conclude the war against Russia on favorable terms and until then keep its state and economy functioning under extreme duress.

The financial needs due to the war as well as the physical and economic needs of millions of displaced persons place a substantial ongoing burden on the Ukrainian government’s provision of services at the local, regional, and national levels.

Thus, Ukraine’s immediate financial, humanitarian, and military needs remain great. Planning for its reconstruction, its economic and political future, and its eventual EU membership should start but not distract from the urgency with which its partners need to continue to provide prompt support, from macro-financial assistance to military aid. Ukraine’s planning and initial steps, including the National Recovery Plan it presented at the Lugano Recovery Conference in July 2022,¹ should not be used by its partners as an excuse for not doing what is necessary during the war.

Since the start of Russia’s war against Ukraine, the members of the G7, NATO, and the EU have managed to stay closely aligned, sending a strong signal to Moscow. The same level of unity and support will be needed during the recovery phase. However, unity is anything but guaranteed.

Ukraine’s EU integration path might turn into a disincentive should some donors argue that recovery and EU integration are one and the same, and thus that assistance is best funded by the EU alone. The United States could argue that it has already provided significant security and macro-financial assistance, that it will need to continue providing the former for some time, and that its security assistance overlaps rebuilding parts of Ukraine’s infrastructure. Therefore, some may argue for a division of labor with the EU focusing on recovery assistance and the United States on security assistance.

There are two significant flaws to this argument. First, the United States has an ongoing geopolitical interest in Ukraine’s recovery, grounded in three decades of support for the country’s democracy, independence, and Euro-Atlantic integration. Such assistance is instrumental to advance and support US goals and interests. Second, the transatlantic alliance has worked best when its members had joint ownership of different elements of a joint project, avoiding limited responsibility and finger-pointing.

Ukraine’s most important partners should strike a high-level political agreement, possibly at the G7 level, in which they acknowledge their shared interest in the nexus of security and recovery, and commit to stay involved in both.

Joint stakeholdership does not necessarily mean equal stakeholdership. Over time, an asymmetrical commitment is realistic and advisable. The United States is providing the lion’s share of security assistance today, and it should pledge to financially support reconstruction, although not at the level of its current military assistance. The other G7 members and additional partners should commit to continuing their current security assistance to Ukraine while playing a bigger role than the United States in financing postwar recovery. (See Figure 1) In so doing, cohesion among all of them will be greatly enhanced.
The G7 should enter into agreement on the security recovery nexus. Different sums for security and recovery assistance assumed. Additional partners are encouraged to join agreement. Burden sharing to be negotiated.

**Figure 1**

**Joint & Asymmetrical Assistance**

**Security Assistance**

- United States
- Other G7

**Recovery Assistance**

- United States
- Other G7
EU membership represents the final goal of Ukraine’s recovery and the linchpin of its future as a full democracy. This goal, which is overwhelmingly supported by the Ukrainian people, determines the country’s path as well as donors’ assistance and investment strategy. Ukraine needs to fulfill the requirements of its EU candidate status to begin formal negotiations to start the accession process. Given these requirements, recovery is of fundamental importance to the EU integration process and, conversely, the EU integration process is of fundamental importance to recovery.

The EU integration process is a strong motivation and anchor for Ukraine’s drive to become a modern, democratic, green, digital, transparent, and prosperous country. Recovery needs to be advanced by democratic and market-friendly reforms that meet EU criteria. The prospect of membership is a powerful incentive to fix chronic problems like corruption, concentration of economic power, and weak governance and rule of law.

With membership as a goal, Ukraine can use the recovery process to scrap fully its Soviet regulatory legacy and to adopt and apply its legal and regulatory environment to EU standards, which will also help to attract foreign direct investment. Advancing on this path and meeting the criteria will produce immediate dividends because this will help to ensure continued external support, including from the United States and non-EU partners. It will also increase the ability of Ukrainian companies to export to the EU.

EU-aligned recovery represents a unique opportunity for Ukraine to build back better, to modernize, and to make a forward leap into a better future. Transport and energy infrastructure can be oriented more toward the West. Ukraine’s tech sector can direct its attention toward the EU’s digital agenda. Decarbonization along the lines of the EU’s Green Deal will be particularly important. Preparing Ukraine’s economy to be compatible with and competitive inside the EU internal market will likely dictate that sizable parts of its damaged energy-intensive heavy industry will not be restored. Path-determining decisions concerning Ukraine’s future core economic sectors and sources of growth need to be taken early in the reconstruction phase, despite likely high levels of uncertainty surrounding its future relationship with Russia.

Ukraine’s EU integration on the path to membership will be a lengthy, complicated process over years. But the combination of domestic reforms and significant international, primarily European, investment in the country will very likely accelerate it.
ARCHITECTURE
Build a RecoverUkraine Platform:
An international platform to finance and manage recovery should be built, to be inclusive, accessible, and offer a low threshold of entry for donors.

Creating a new agency for the provision of international aid to Ukraine is not practical, advisable, or achievable given the numerous existing experienced development banks, limited funds, and donor competition. Therefore, aid strategy and delivery need to be coordinated among donors and with Ukraine. An international platform—RecoverUkraine—should be built for this purpose. It would need to be inclusive and offer a low threshold of entry for donors while delivering governance involving all donors and working with proven transparency and monitoring systems to avoid corruption. Nodes to private capital, philanthropy, and civil society should be built into the process. (See Figure 2.)

The G7 as a group of closely allied democracies and of some of the strongest economies in the world should lead the creation of this platform and serve as its political anchor. It comprises the most important donors and is politically cohesive enough to agree on the recovery architecture. Importantly, the EU being a member makes the G7 a community of Ukraine’s strongest partners.

Different IFIs should be encouraged to use their established instruments, such as their multi-donor funds, to attract capital. Oversight would be through existing IFI mechanisms and contributor committees. Donor countries would choose their preferred institution or even divide their grants, loans, or guarantees between a number of IFIs given the latter’s varying specializations. They may prefer to work through the International Monetary Fund, the World Bank, or the European Bank for Reconstruction and Development. All of these bodies count Russia and its “no limits friend” China among their shareholders, but the direct influence of these countries is limited. Some development banks have already adapted their procedures to prevent Russian interference in matters regarding Ukraine. Some donors may want to work with the European Investment Bank to avoid this challenge, though its accessibility to non-European donors may have to be further improved.

This open system will allow all donor countries to follow tailor-made approaches without having to reinvent the wheel. Moreover, it will allow non-EU countries like Canada, Japan, the United Kingdom, and the United States to provide input and exercise optimal oversight within a construct that aims at Ukraine’s EU integration.

But, in order to be strong and effective in such an open and inclusive system, donor coordination cannot be limited to exchange of information.
National recovery structure to be defined by Ukraine in close coordination with RecoverUkraine platform

* IFIs may use different terminology for their respective multi-donor funds.
The RecoverUkraine platform needs strong leadership. Weak donor coordination, especially if combined with weak postwar governance in Kyiv, will not suffice.

The G7 and Ukraine should therefore appoint a recovery coordinator for a limited, renewable term. The coordinator would be a political figure of stature with access to leaders in the world’s major capitals, and reporting to the leaders of the G7 and Ukraine.

The right balance must be struck between an operative group of politically aligned countries centered around the G7 plus closely allied democracies. Furthermore, including all countries interested in contributing to Ukraine’s recovery should be ensured. This is particularly relevant with regard to China. As such, the scope of support can be described as G7++; that is, the G7 plus politically aligned democracies plus additional support from other global contributors.

This idea of a G7++ framework departs from proposals, particularly by EU institutions, that foresee the recovery platform being led by Ukraine and the European Commission. While the commission needs to play a central role, which will only grow as the country moves along on the path of EU integration, the leadership of the RecoverUkraine platform should rest with the G7 and its partners to ensure inclusivity and the ability to raise the required capital.

The first recovery coordinator should be an American with global stature—so as to use the United States’ power and prestige to guarantee that a global recovery alliance comes together. This would also help to garner domestic US support. Ukraine’s postwar security environment also factors into this choice. Subsequent coordinators could be Europeans, reflecting the EU’s growing responsibility for the long-term process.

The coordinator should have meaningful autonomy and decision-making authority. His or her key task would be to provide a single interlocutor for Ukrainian authorities, to devise strategy, to develop institutional arrangements for channeling reconstruction funds, to build an accountable and transparent decision-making and reporting framework, to coordinate across aid sources, and to provide real-time oversight. Whether the coordinator could be empowered to delay or withhold aid would have to be negotiated with a view to the oversight role of the contributors’ committees for the individual multi-donor funds. The coordinator should be open to input from civil society to improve transparency.
The recovery coordinator should set up a task force to help organize and coordinate the RecoverUkraine platform, with the European Commission best placed to host it. The task force should be led by an EU official reporting to the recovery coordinator and consist of representatives of the IFIs, Ukraine, and donor countries as well as EU officials. Relying on European Commission staff would also help minimize any friction with the EU integration process as the recovery proceeds.

A country-level coordination group could also be established to include the group of G7 ambassadors in Kyiv, the local IFI representatives, the EU delegation, and a Ukrainian government representative. The EU delegation would serve as the liaison to the task force and the recovery coordinator. The main duty of the group would be to resolve country-level coordination challenges and cross-cutting issues, largely at the program and aid delivery level.
Embrace Partnership and Ownership: RecoverUkraine should embody partnership, with Ukraine taking ownership and setting priorities, and donors setting conditions.

The RecoverUkraine platform should embody the spirit of partnership between Ukraine and its donors.

It is up to Ukrainians to determine their future. Ukraine has already presented its National Recovery Plan (NRP). The architecture of the RecoverUkraine platform should be aligned with that of the NRP, which determines the priorities and direction of the country’s EU-oriented modernization. The NRP is the key component of its ownership of this process. Ukraine should also second officials to the recovery task force to support its task, improve its local knowledge, achieve informational equality, and enhance the spirit of partnership. (See Figure 3.)

All of this is important to emphasize because Ukrainians will be “understandably sensitive about foreign interference in their reconstruction,” as US economist Barry Eichengreen notes. “But foreign oversight is the price of foreign aid, particularly on the scale that Ukraine will require.”

The partners in the RecoverUkraine platform will best support the country by agreeing with it on the principles of aid disbursement and then making sure that the conditions for achieving its national goals are met. Funding will be tied to the implementation of necessary, agreed reforms.

While the RecoverUkraine platform will not provide a unitary funding mechanism and single set of conditions, all partners should adhere to the same conditionality principles. The recovery coordinator should make it a priority to facilitate coordination among funders to agree these principles.

This process will ensure that Ukraine receives the projected funds and remains on track with EU integration while donor governments can more easily sustain domestic support for assistance that involves large amounts of taxpayers’ money. Conversely, departure from the conditionality principles and the reform schedule would likely slow or curtail the transfer of funds, endanger recovery, and erode domestic support in donor countries.

---


FIGURE 3
Shared Stakeholdership
SEQUENCING
Ramp Up Gradually: Basic relief cannot wait; it is needed while the war continues.

An emergency relief effort is necessary while the war continues. Humanitarian aid must flow and supporting infrastructure must be restored. Winter is coming, and housing and heating needs are immense. Critical infrastructure needs to include the energy grid, communication towers and the Internet, water and sewage systems, highways and railroads, ports and grain terminals, hospitals, and medical services. Donors are accustomed to this challenge since it is akin to responding to a natural disaster. Emergency aid systems, funds, and institutions are in place in Europe, the United States and in other democratic countries. Many of them are already actively engaged in Ukraine. Those that are not should be.

The rehabilitation of critical infrastructure is not only essential because of the fundamental needs of Ukraine’s population, but also because it is the backbone of a working economy. Considering the ongoing war and the scale of the destruction, a complete collapse of the economy must be avoided. What is more, restarting a collapsed economy in a failing or failed Ukraine would be much more costly than helping the country to survive and rehabilitate itself even as the hostilities continue.

Geographic differentiation may apply. Regions of relative peace and security may be suited for impactful assistance to critical infrastructure projects, which would also boost local economic activity. Relatively safe western Ukraine now hosts millions of internally displaced people. Immediate infrastructure enhancements are necessary to serve these people, to enable a functioning economy, and to ensure continuity of public life.

The expertise of international organizations, like the World Bank and the IMF, with considerable experience in fragile and conflict-affected economies will be useful in determining where in Ukraine to intervene and in which way. However, there is no clear divide between completely peaceful and war-torn region in Ukraine, making calls about regional sequencing ultimately a political decision.
In contrast to the situation at the launch of the Marshall Plan, the most basic physical and political circumstances framing Ukraine’s future remain uncertain. This poses obvious challenges for economic planning beyond the immediate needs of relief and rehabilitation.

The extent of Ukraine’s postwar territorial integrity is not predictable. Much will depend on whether the war will end with a negotiated settlement or become a frozen conflict resting on a potentially volatile ceasefire. This uncertainty greatly limits economic planning and raises doubts about when the country will become “investable.” Without security private investors will often shy away and money will only come from public sources. This reduces the scope of possible recovery funding significantly as substantial FDI will not arrive under such conditions. Therefore, some patience is needed—particularly on the Ukrainian side where it is in short supply, for understandable reasons.
Recover in Four Stages:
Recovery should consist of four stages: relief, reconstruction, modernization, and accession to the EU.

Ukraine's National Recovery Plan foresees a gradual ramping up of activities with a "gradual increase of risk appetite." This realistic approach would align with a sequenced approach in four phases: relief, reconstruction, modernization, and accession to the EU.

- The **relief** phase covers the emergency aid needed while the war continues. It focuses on humanitarian help and the rehabilitation of critical infrastructure.

- The **reconstruction** phase is a rapid postwar response. It focuses on encouraging market mechanisms to allocate funds. More fundamental investments can be made into infrastructure, including social infrastructure.

- The **modernization** phase plants the seeds of a new Ukraine emerging—and building back better—from the ashes of the war: one that is more digital, more ecological, more democratic, more EU-oriented. Larger investments into structural change can be made. Making a forward leap technologically and attracting foreign capital will be headline goals for this period.

- The **accession** phase foresees investments that are more about aligning Ukraine with the EU. (See Figure 4.)

These four phases can broadly be associated with different instruments, and possibly different donors. Relief can be supported by emergency funds while reconstruction and modernization will see larger tailored programs from the IFIs. The EU and its member states will be involved in all four phases. Funds related to EU integration will come only from the EU. In all likelihood, the non-EU international effort will be frontloaded as the interest of the international community in helping Ukraine will wane over time while the EU’s commitment will increase as the country’s accession becomes more realistic and draws closer. (See Figure 5.)

The duration of each phase is difficult to predict. At the front end of the process, because it is unclear how long the war will last and how much more damage it will inflict upon Ukraine. At the back end, because the speed of Ukraine’s EU integration is hard to foresee (though it will likely be shorter than for other recent candidate countries given the projected investments and the significant incentives for reform)

---

SEQUENCING
DESIGNING UKRAINE’S RECOVERY IN THE SPIRIT OF THE MARSHALL PLAN

Reconstruction
Rapid Response to War

Modernization
Build Back Better

Accession
EU Alignment

Relief
Wartime Emergency

Encourage Market Mechanisms

Larger Investments into Structural Changes: Digital, Economic, Democratic

Investments into De-Sovietization and EU Orientation

Attract FDI

Macro-financial Support

Fundamental Investments into Infrastructure

Rehabilitation of Critical Infrastructure

Rebuild Social Infrastructure

Strengthen Economic, Social and Territorial Cohesion of EU

Rebuild Social Infrastructure

Fundamental Investments into Infrastructure

Digital, Economic, Democratic

Rehabilitation of Critical Infrastructure

De-Sovietization and EU Orientation

Attempting at Technological Leapfrogging

Support Transition Towards Climate Neutrality

FIGURE 4
Investment Phases

Relief
Wartime Emergency

Reconstruction
Rapid Response to War

Modernization
Build Back Better

Accession
EU Alignment

Non-EU Funds

Macro-financial & Recovery Assistance

FIGURE 5
Funding Sequence*

EU Member State and EU Funds**

Russian Assets***

Non-EU Funds**

*Schematic Illustration
**Macro-financial & Recovery Assistance
***Dependent on legal reforms in G7 countries or peace agreement, dimension unclear.

Ceasefire/
Settlement
FINANCING
Prioritize Wartime Assistance: Ukraine’s financial emergency as the war continues may require another IMF program in 2022.

Ukraine has short- and long-term financing needs. Its current fiscal gap is estimated by the IMF at $5–6 billion a month, half of which has to date been financed by the National Bank of Ukraine through monetary financing and via the issuance of local bonds by the government. This is unsustainable. Donors must take urgent action to prevent hyperinflationary pressures in Ukraine’s economy.

Recent agreements by G7 government and private-sector bondholders for a voluntary reprfiling and two-year payment moratorium on Ukraine’s foreign debt are a constructive step. The IMF Administered Account established in April 2022 for donors to channel grants and loans for Ukraine’s immediate budgetary needs is an important conduit, but donor governments and the EU need to follow through on their commitments.

A new IMF loan for Ukraine later this year, as suggested by the governor of the country’s central bank, could stabilize its short-term financial emergency. To mitigate the financial risks to the IMF from lending large sums to a war-ravaged member, the EU could via its regular budget provide the IMF first-loss or other financial guarantees for a sizable share of its lending to Ukraine. Such use of EU budget resources would be similar to the implicit euro-area guarantees provided to insulate the IMF from exposure to Greece after 2010.

---

7 International Monetary Fund, “IMF Executive Board Approves the Establishment of a Multi-Donor Administered Account for Ukraine,” April 8, 2022.
9 This would not be a recreation of the IMF-EC-ECB troika of the European Central Bank, the European Commission, and the IMF but an IMF program under the complete and exclusive control of the IMF. The EU would be involved only through financial guarantees to the IMF for its exposure to Ukraine in the ongoing war, provided due to the EU’s strategic interest in securing a viable Ukrainian government.
10 The euro area via the European Financial Stability Facility and European Stability Mechanism provided two-thirds of program financing to Greece after 2012, which, with the IMF’s super-senior creditor status, greatly reduced the actual IMF credit risk. The voluntary private-sector debt reprofiling in July 2022 is functionally equivalent to, though far less financially costly than, the restructuring of Greek privately held debt in 2012.

---

The fog of war lies thick over Ukraine, and the total costs of the conflict are hidden in the mist. Certainties about investment volumes are inevitably false certainties as long as the duration and the outcome of the war cannot be known, the degree of peace to be enjoyed by Ukrainians is elusive and the ultimate extent of the territory of the nation to be rebuilt remains unclear.

Ukraine’s short-term financing needs are easier to know. The IMF estimate of a current fiscal gap of $5–6 billion a month suggests around a need of $60 billion in macro-financial assistance for a one-year war, or $90 billion over 18 months. Assuming limited issuance of domestic government bonds and some draw-down of foreign reserves (but also an end to outright monetary financing by the central bank), the majority of this shortfall should be covered by donor countries and IFIs over the next 12-18 months.

The government is keen on pursuing a long-term national renewal project for postwar Ukraine, as the country embarks on the EU integration process, complete with economic reorientation toward the West, decarbonization, economic modernization, and comprehensive anti-corruption and rule of law reforms. Its National Recovery Plan calls for an investment of $750 billion until 2032. The NRP avoids raising false hopes that donors will provide much of this sum by pointing out that much of the investment will come from global private and domestic sources.

According to the Kyiv School of Economics, the costs of the damages to Ukraine’s infrastructure stand at $108.3 billion in August 2022, more than a third of this in damages to the residences of more than one million families. If the fighting remains contained to its current locations and Russia fails to take significant new Ukrainian territory, this number is not likely to rise dramatically.

Assuming reconstruction will take years, costs will be spread out accordingly, which should make the dimensions of the project manageable for donors.

---

12 KSE Institute, Kyiv School of Economics, “Russia will pay / damaged. in.ua”.

Recognize Limits: The total bill for recovery is unknowable during an ongoing war. Donors should avoid creating false certainties and raising false hopes.
Grants First: Donor assistance should be strongly weighted toward grants.

Rebuilding basic infrastructure, the bulk of which is currently funded by Ukrainian taxpayers, requires grant-based financing and cannot only rely on lending at commercial terms or even concessionary terms as provided by the IFIs. Nor will Ukrainians be able to rebuild their country through fee-based infrastructure, such as toll roads. Ukraine’s official bilateral creditors have to date accepted a voluntary maturity extension of their share of the existing foreign debt, already equivalent to over 60 percent of pre-war GDP. Given the IMF’s projection of a contraction of Ukraine’s GDP in 2022 of no less than 35 percent, the country’s debt burden as a share of GDP will grow substantially this year.

Adding reconstruction and other financing needs to Ukraine’s debt risks overburdening an economy that needs to invest in fully reorienting itself toward the West to eventually become an economically viable and competitive member of the EU.

Demanding sizable additional financial commitments from existing private creditors may harm Ukraine’s postwar access to private debt markets. Donors from the EU in particular should be conscious of the need to keep the country’s overall and general government debt levels manageable, as it strives to meet the fiscal rules of the EU’s Economic and Monetary Union as well as the Stability and Growth Pact.

For these reasons, relief and recovery financing should be available as grants—funds that are quickly available, do not have to be repaid, allow for greater discretion in their use, and do not harm Ukraine’s creditworthiness.

13 National Bank of Ukraine, “External Debt as of the end of Q1 2022.”
14 International Monetary Fund, “Ukraine.”
Even if there is a ceasefire or a settlement, Ukraine’s reconstruction will begin in a volatile environment, possibly including the risk of renewed Russian aggression. In the absence of a policy intervention, this situation will deter private-sector actors, especially foreign ones, from directly participating and investing in reconstruction, possibly for a prolonged period. Insurance premiums, if at all commercially available, will be prohibitively high for private-sector economic activity to commence.

Western governments should offer private investors engaging in Ukraine’s reconstruction an expanded and heavily subsidized version of the type of political risk insurance or credit enhancements traditionally offered by IFIs or national export-promotion agencies to cover breaches of contract, expropriations, civil disturbances, or even outbreaks of war in destination countries. This “war insurance” would explicitly cover private actors’ risk from any future destruction of reconstructed assets and personnel injury by Russia while they operate or invest in Ukraine.

The “war insurance” for Ukraine would incentivize private investors to come to or return to Ukraine. The country’s pre-war GDP per capita was about 15 percent of the EU average and EU member states that are poorer than the EU average received an inflow of FDI during their accession period. Investors were keen to take advantage of the newly predictable business conditions and the improved commercial law conditions associated with adopting the EU’s rulebook, the acquis communautaire. The “war insurance” would play a key bridging role, spanning the early part of the transition from a war economy to Ukraine’s prospective EU membership as early access to private investment will be crucial for the trajectory of economic recovery.
The scale of Ukraine’s longer-term reconstruction financing requirements is linked to the circumstances of the end of the war. The type of available funder will also depend on the outcome of the war. China is both a potential major donor and possibly a Trojan horse. It has the financial resources and the ability to move fast, which Ukraine may find tempting, but experience suggests money from Beijing comes with deleterious strings attached. Since China is likely to want to be a player in Ukraine’s recovery, it would be best to have it inside the donor tent, not outside. It should be encouraged to channel its assistance, like other donors, through the IFIs. But China would likely prefer to at least partly use its domestic institutions. Accepting this assistance, or similar domestically provided assistance from other countries not aligned with the G7, would be for Ukraine to decide.

Ukraine’s EU candidacy implies that the EU should provide the bulk of economic assistance, with other donors tapering down theirs over time. The fixed nature of the EU’s Multiannual Financial Framework limits its financial flexibility, but this does not apply to the member states. The EU and its members could reach their financing goals for Ukraine through a combination of direct EU budget grants; member-state loans, grants and guarantees; and ultra-long term concessionary-term common loans. Grants to Ukraine, when financed through common EU debt, will be controversial in some member states as they will be perceived as “borrowing to lend”. Similarly controversial will be an increase of the relative weight of member state’s bilateral contributions or a renegotiation of the Multiannual Financial Framework.

EU leaders must be willing to debate these alternatives. Failure to rise to this long-term economic challenge would inevitably see the level of ambition of the Ukrainian recovery project reduced.

EU leaders will have to make decisions about financing rather fast because other donors will condition and scale their participation in Ukraine’s recovery based on the EU’s lead. The United States in particular will want to see a credible path toward growing EU responsibility for the financing of the RecoverUkraine platform before it commits itself to contributions in the early phases of relief and reconstruction.

Be Transparent:
For their taxpayers’ sake, donor countries and the EU should embrace a vigorous and transparent debate about the scale of their commitment.
RUSSIAN ASSETS
There can be no doubt about Russia being the aggressor in the invasion of Ukraine. Beyond the irrecoverable cost in Ukrainian lives, the rebuilding of Ukraine’s economy and infrastructure is projected to cost billions of dollars. To provide a degree of justice to the Ukrainian people and to help raise the substantial sums needed, Western governments should support Ukraine’s effort to make Russia finance at least part of the recovery.

While the moral case for making Russia contribute is clear, the legal one is more complex—even though there is no doubt about it being the aggressor and violating international law.

Reparations have a clear basis in international law but they are usually part of a peace settlement imposed on the defeated party or mandated through official multilateral or judicial processes. With such a peace treaty currently not foreseeable, the UN Security Council blocked by Russia’s veto power, and the International Court of Justice lacking enforcement powers, there is no clear path to ensuring Russian reparations under international law.

Therefore, Western governments should explore other options. These include the seizure of the more than $300 billion of Russian central bank assets and $30 billion of private Russian assets that they have frozen.15

There are legal and political hurdles to seizing either. The private Russian assets are hard to track down and the connection of their owners to illegal activities is difficult to prove. They also benefit from strong legal protections, including the right to own property enshrined in many Western countries’ constitutions. Central bank assets have a clear connection to the aggressor in the war, namely the Russian state, and the large sum involved makes them a more attractive priority. However, their seizure comes with the risk of retaliation. Russia and other countries could repatriate their reserves from Western banks, undermining the role of the euro and the dollar in the global financial system.

The G7 governments should reassure other countries that their reserves remain safe and that the current circumstance are unique and that seizing Russian reserves is unlikely to be repeated in the future.

The moral and political case, Ukraine’s financial needs, and the preventive effect of a seizure of Russian assets outweigh even significant risks, however. And the alternatives—such as impunity for Russia for its war of aggression, asking Western taxpayers to contribute even more for rebuilding Ukraine, or reducing the ambitions connected with Ukraine’s recovery—would be worse.

Seizing Assets Takes Time: Seized Russian central bank assets can only become a partial funding source for Ukraine’s recovery, and only in the long term.

The legal uncertainties and political considerations that have prevented the seizure of frozen Russian central bank and private assets until now are unlikely to be resolved anytime soon, making this unfit as a short-term funding solution for Ukraine.

In June, the G7 leaders committed to exploring the use of frozen Russian assets but made this dependent on the reform of national laws in individual countries. Canada has already passed legislation that enables it to seize the assets of sanctioned people and entities, but this is expected to be challenged in court. Judicial victories by challengers could harm the efforts of Western governments as well as Ukraine, which serves as a caution against rushed legislation.

With the decisions on seizing Russian assets resting at the national level, such funds would not become available all at once but at the different speeds of legislative processes—in a best-case scenario. In some cases, this may never happen. Therefore, the final sum of usable Russian assets involved cannot be known.

Should it prove impossible to create a legal basis for seizure while the war is ongoing, the use of Russian assets could become part of a settlement instead. If Russia agrees to contribute to the reconstruction of Ukraine, its frozen funds could be released. This should represent the only avenue for Russia to be able to use even part of those assets again. It might still prefer to keep funds frozen rather than to contribute to reconstruction. But the price to Russia for such behavior would then be significant as the West should keep its assets permanently frozen, even if they cannot be seized to support Ukraine.

ACCOUNTABILITY AND RULE OF LAW
Rule of Law Reforms Come First: The first tranche of long-term reconstruction funds should be contingent upon Ukraine implementing initial rule of law reforms.

Strengthening the rule of law has an outsized significance for the recovery of Ukraine. Successful completion, implementation, and enforcement of long-standing rule of law and judicial reforms is critical and must be a prerequisite for the efficient implementation of reconstruction projects as well as for maintaining the trust of donor countries. It is also a catalyst for Ukraine to attract private investors and to start EU accession negotiations. The disbursement of reconstruction funds should therefore be contingent upon initial rule of law reforms during the relief phase.

Political and judicial obstructionism in Ukraine have repeatedly delayed the adoption and implementation of rule of law reforms and impacted efforts to combat corruption. The current political momentum based on a broad societal consensus in favor of EU integration presents an opportunity for the country’s parliament to pass key reforms immediately. Substantial progress should be made by the end of 2022. This would send a strong signal to donors and their tax-paying publics of Ukraine’s political commitment to improve the rule of law and to increase the country’s ability to absorb large sums of reconstruction money with donor confidence.

Since the invasion, the parliament has remained operational and has demonstrated unity in supporting the war effort. President Volodymyr Zelensky’s popularity as a wartime leader allows him to press forward with reforms even against powerful interest groups. At the same time, the war and the country’s EU candidacy have weakened the political influence of oligarchs, opening up a crucial window of opportunity to kickstart reforms.

An initial set of steps should include reforming the Constitutional Court and safeguarding the independence and uninterrupted functioning of anti-corruption institutions, particularly the National Anti-Corruption Bureau, the Specialized Anti-Corruption Prosecutor’s Office, and the Asset Recovery and Management Agency. The key steps are outlined in the European Commission opinion on Ukraine’s application for membership, the implementation of which is a precondition for advancing in the accession process and which will be subject to a commission report by the end of 2022.17 IFIs and donors should consider only disbursing funds for the reconstruction phase once reform conditions in the initial relief phase have been met.

In the absence of a central trust fund, joint conditionality applied by all donors would be desirable. Yet, this is unlikely to happen due to the large number of funders and IFIs with their own conditionalities. The different types of financial support needed, ranging from early macro-financial assistance to private-sector loans, from grants to guarantees, make a single set of conditions unfeasible. Yet, there is a long history of conflicting donor conditionality hobbling recovery and reconstruction. Therefore, a coordination mechanism would be needed to ensure the compatibility of conditions and the adherence to commitments by donors and Ukraine’s government alike. This would make it easier for the government to meet conditions and would simplify the monitoring process.

IFIs impose different types of conditions on the recipients of loans and grants. At the regulatory and technical level, the disbursement of funds, especially in the case of loans, is dependent on risk assessment and monitoring standards. Such mechanisms include integrity checks on borrowers and compliance with legal standards and corruption prevention. IFIs have little room for
deviation from these because of their institutional requirements. Regular information exchange and alignment between their compliance departments is recommended. The recovery coordinator and the task force could lead the coordination effort among IFIs to make sure that conditions are compatible and that monitoring and reporting follows similar standards.

Some IFIs as well as bilateral donors also impose political or structural conditionality that demands political reforms or passing macroeconomic benchmarks in exchange for loans and grants. The EU accession process imposes similar conditions. This type of conditionality would require a significant effort on the part of Ukraine’s government and could be very sensitive as it imposes external conditions on domestic politics. Inconsistencies between the political and structural conditions of different funders would undermine the credibility and success of the reform process. Therefore, they would need to be closely coordinated. When it comes to conditionality, the recovery coordinator should have a strong role and coordinate a joint reform schedule that funders agree on.

All conditions should be based on measurable, transparent, and verifiable parameters that should be public and agreed upon with Ukraine. This could be achieved by basing reform demands on the reform proposals and timelines outlined in the Working Group Materials of the National Council for the Recovery of Ukraine from the Consequences of the War. Relying on a schedule and set of measures defined by the government would strengthen Ukrainian ownership of the reform process and contribute to consistency.

In addition to funders’ own monitoring efforts for their respective programs and projects, the recovery coordinator and the task force should monitor conditions and regularly publish reform benchmarks in a report. If and how the recovery coordinator could be involved in decisions to either delay or withhold aid based on non-compliance with conditionality would have to be negotiated during the process of setting up the office of the recovery coordinator and the task force. The challenge would be not to interfere with the oversight rights of the contributor’s committees of the individual multi-donor funds. (See Figure 6.)
FIGURE 6
Conditionality

Joint Political and Structural Conditionality**
Political and Economic Reforms

- Based on joint reform schedule coordinated by RecoverUkraine coordinator

Individual IFI Technical Conditionality
Risk Assessment, Transparency, Efficiency, Monitoring and Evaluation

- Based on same conditionality principles,
  Information exchange coordinated by RecoverUkraine coordinator

*Precondition for the disbursement of reconstruction funds.
To be finished until ceasefire / settlement, certainly by the end of 2022.
** Only includes IFIs that apply this type of conditionality.
To maintain trust in the recovery process on all sides, the RecoverUkraine platform and Ukraine’s government should make transparency a guiding principle, allowing for citizens’ oversight via free media, the private sector, and civil society.

This would mean prompt publication of as many documents related to reconstruction projects as legally possible given restrictions on proprietary information of private investors, starting with planning and procurement. This should be done through a centralized digital platform, to be created as soon as possible.

The large money flows associated with the reconstruction process, coupled with the various international, domestic, regional, and local stakeholders carry an inherent risk of inefficient use of funds and corruption. The public disclosure of information related to reconstruction could help prevent the duplication of efforts, ensure a constant information flow between stakeholders, and prevent the abuse of funds.

A commitment by donors and Ukraine to transparency strengthens the principle of partnership and allows for a comprehensive monitoring of the reconstruction efforts. Largely unrestricted access to information would be the prerequisite for Ukraine’s citizens, civil society, and media to understand decision-making processes at all levels of government and exercise their watchdog function. A clear commitment by Ukraine to transparency would also send a strong signal to the publics in donor countries, as well as to Ukrainians, strengthening their trust in the reconstruction process and demonstrating the responsible use of funds.

The digital platform should contain information on procurement processes, project implementation progress, and criteria related to the disbursement or potential suspension of aid. Failures to disclose information by any party should be reported to the inspector general, who should include such information in regular monitoring reports.

In the past years, Ukraine’s efforts to implement a digital governance system have increased the efficiency of government considerably. The online public procurement platform Prozorro® has demonstrated how digitization can help reduce corruption in public procurement. A digital archive on reconstruction would build on this experience in developing, implementing, and enforcing e-governance, while providing domestic examples of successful anti-corruption measures.

---

Trust but Verify: An inspector general should provide independent oversight to guard against corruption.

Wherever large sums of money are disbursed, there is a risk of abuse, fraud, and waste. Ukraine’s history of corruption makes the topic especially sensitive. The first known case of misuse of reconstruction funds would be exploited in Western media and used by critics to chastise the use of taxpayer money for Ukrainian recovery. The high number of parallel IFI funding flows and monitoring mechanisms further complicate oversight of the recovery effort.

To preempt or at least minimize inevitable cases of abuse, the RecoverUkraine platform should create the position of an independent inspector general whose office would serve as a monitoring and oversight mechanism and contribute to the efficient use of recovery funds.

An inspector general would be a point of contact for governments, IFIs, civil society, citizens, and whistleblowers. This office would have the authority to inspect the work of the RecoverUkraine platform as well as investigate accusations of misconduct during project implementation, providing two-way accountability at every stage of the recovery process. Regular reports by the inspector general to the recovery coordinator should include summaries of all oversight activities and be publicly accessible.

The IFIs can involve the inspector general in their monitoring mechanisms through the systematic sharing of information on misconduct. If they want to be involved in channeling donor funds for Ukraine’s reconstruction, the IFIs will have to accept some authority of the inspector general in their remit.

While the legal prosecution of financial abuse and corruption can prove complicated in the case of transnational money flows and overlapping jurisdictions, experience has shown that the suspension and debarment of local contractors from receiving further public contracts can serve as a useful deterrence. The inspector general should therefore keep records of all cases of misconduct related to recovery funds and advise funders against future cooperation with individuals and entities on the list. Similar cooperation mechanisms already exist among some IFIs and should be extended to all IFIs involved in the Ukraine recovery effort.
Address Corruption Concerns: Ukraine should join the European Public Prosecutor’s Office at the earliest, adding EU legal oversight to many investments.

An additional step to support judicial reforms and advance democracy would be for Ukraine to join the European Public Prosecutor’s Office (EPPO) at the earliest possible time.

There are differing degrees of integration within the EU, described as “variable geometry” or “multi-speed Europe.” The same applies to candidate countries, which may participate in selected EU policy frameworks.

The EPPO is tasked with investigating, prosecuting, and bringing to justice financial crimes against the EU. Only founded in 2021, its role in the EU integration and accession process is untested. Opening EPPO membership to candidate countries, including Ukraine, could contribute to their alignment with EU judicial standards, and it could strengthen the rule of law early in the integration process. In March 2022, Ukraine became the first non-EU country to sign a working arrangement with the EPPO, focusing on judicial cooperation in criminal matters and exchange of information.19 Fully joining the EPPO as soon as possible would offer Ukraine a powerful opportunity to signal its determination to the EU and to G7 to break with its fraught history. It would add a layer of EU oversight over EU-funded projects.

19 European Public Prosecutor’s Office, “Working Arrangement on the cooperation between the European Public Prosecutor’s Office (EPPO) and the Prosecutor’s General Office,” March 18, 2022.
Civil Society at the Table: 
Civil society organizations should be involved in the recovery process from Day One.

As civil society organizations (CSOs) have been the backbone of democratic reform in Ukraine to date, they will be essential to postwar reconstruction and modernization. The RecoverUkraine platform should treat Ukrainian CSOs as partners, drivers of rule of law and other reforms, advocates of citizens’ needs and for EU integration, and watchdogs against corruption.

Civil society has provided input into the planning for the government’s National Recovery Plan and has adopted a detailed Civil Society Manifesto at the Lugano conference.\(^\text{20}\) Lifting the voices of Ukrainian CSOs further and providing them with additional channels to inform and shape the reconstruction process on the international level will help to ensure that the principle of “local ownership” reaches down to the grassroots level. CSOs will be the first to notice when donors or recipients do not deliver. They can help make recovery inclusive, resilient, needs-oriented, and sustainable.

CSOs should have at least a consultative role. Some CSO representatives advocate for a more formal role within a multi-stakeholder process given the importance of CSOs in Ukraine’s democratization. Yet, the more CSOs are involved, the greater the need to also include safeguards against any abuses, such as influence peddling by special interests through CSOs.

The task force should make sure that Ukrainian civil society representatives can give feedback and feed in information. It should also encourage the government to do the same. CSOs should be able to report any observed misconduct during the reconstruction process to the inspector general.

The RecoverUkraine platform could also appoint an ombudsperson for civil society to allow for regular exchange, possibly augmented with an annual RecoverUkraine civic summit. The exchange with civil society actors should be supported through a financial mechanism, making sure that CSOs have the capacity to support Ukraine’s recovery and carry out their watchdog role. A RecoverUkraine microgrant facility could be a mechanism to help mobilize citizens behind recovery projects, especially at the local and regional levels.

\(^{20}\) Centre for Civil Liberties, Euromaidan SOS, European Pravda NGO, et.al., "Civil Society Manifesto 2022 (Lugano Declaration),” Accessed August 26, 2022.
About GMF

The German Marshall Fund of the United States (GMF) is a non-partisan policy organization committed to the idea that the United States and Europe are stronger together. GMF champions the principles of democracy, human rights, and international cooperation, which have served as the bedrock of peace and prosperity since the end of World War II, but are under increasing strain. GMF works on issues critical to transatlantic interests in the 21st century, including the future of democracy, security and defense, geopolitics and the rise of China, and technology and innovation. By drawing on and fostering a community of people with diverse life experiences and political perspectives, GMF pursues its mission by driving the policy debate through cutting edge analysis and convening, fortifying civil society, and cultivating the next generation of leaders on both sides of the Atlantic. Founded in 1972 through a gift from Germany as a tribute to the Marshall Plan, GMF is headquartered in Washington, DC, with offices in Berlin, Brussels, Ankara, Belgrade, Bucharest, Paris, and Warsaw.

Ronja Ganster is a research assistant with the German Marshall Fund of the United States, based in Berlin.

Jacob Kirkegaard is a senior fellow with the German Marshall Fund of the United States, based in Brussels.

Thomas Kleine Brockhoff is a vice president and director of the Berlin office with the German Marshall Fund of the United States.

Bruce Stokes is a visiting senior fellow with the German Marshall Fund of the United States, based in Washington, DC.

The views expressed in GMF publications and commentary are the views of the author(s) alone.

As a non-partisan and independent research institution, The German Marshall Fund of the United States is committed to research integrity and transparency.

Ronja Ganster, Jacob Kirkegaard, Thomas Kleine-Brockhoff, and Bruce Stokes