

SCEEUS GUEST PLATFORM FOR EASTERN EUROPE POLICY NO.10

# Financing Ukraine's Victory and Recovery: For the War and Beyond

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Reconstruction in Ukraine has been a hot topic for the past six months: first during the [Lugano conference](#), and then during the [follow-up conference in Berlin](#). However, the disbursement of pledges of financial aid to Ukraine has often been delayed. It has become clearer to many observers that the most pressing need is to focus on urgent action in support of Ukraine's victory in a prolonged war. Financial aid is needed on a much more predictable basis, and additional urgent donor coordination is vital. The "Financial Rammstein" mechanism could be the answer to this problem.

Several recovery and reconstruction financing concepts already presented by various groups of thinkers could successfully incorporate the principle of immediate action.<sup>1</sup> It is important that European Union (EU) and G7 policy leaders, as well as the international financial institutions start to take action on a flexible basis, making timing their top priority rather than elaborate recovery project design. The regular and reliable supply of \$3–4 billion a month for budget needs appears crucial to keep the Ukrainian state afloat, and probably an additional \$1–2 bn per month to finance urgent capital spending needs throughout 2023. There are several reasons for this:

**Delays in financial aid inflows stoke inflation:** While there is obviously little to be done on either the expenditure or the revenue sides of the budget,<sup>2</sup> every delay to a budget support tranche requires the national bank of Ukraine (NBU) to print excessive amounts of hryvnia to fund immediate government needs. This brings increased risks of inflation and currency devaluation, and significantly weakens economic resilience. Since the beginning of the war in February 2022, the NBU has been the biggest contributor to the budget, far in advance of the United States or the EU. This could cripple the remnants of Ukraine's economy and make winning the war and post-war recovery much more complicated.

**Economic resilience is fragile and needs to be sustained:** With each destroyed and not reconstructed building or power generation facility, the remaining Ukrainian businesses and population lose the incentive and ability to perform their tasks. There is no way to keep producing goods during prolonged power outages and there are few options for consumers to maintain demand if they cannot physically visit shops or receive a service.

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1 E.g. [German Marshall Fund, Centre for Economic Policy Research](#)

2 For more information on short-term estimates of Ukraine's public finances see the German Economic Team [report](#)

**Reconstruction will cost more if urgent repairs are delayed:** Residential, governmental and commercial buildings damaged by Russian missiles or shelling might need comparatively moderate investment now but will be in ruins if left in their current state for a long period of time, especially over the winter months. Roof reconstruction or at least conservation is a must for retaining housing stock, or premises to provide further public service in recently de-occupied territories.

**Support is needed for local businesses:** Allowing room for capital spending in the budget, which has thus far been cut virtually to zero, would create a fiscal stimulus that is even more important because local consumption and exports have been so severely limited by the Russian aggression.<sup>3</sup> It would not only allow more jobs to be preserved (and thereby protect tax revenues), but also retain businesses as “going concerns” and human capital that will be vital to any post-war recovery efforts.

With strong EU leadership, the recent **Financial Rammstein** coordination platform initiative could help to streamline these efforts and quickly build “just-in-time” aid architecture that would ensure Ukraine’s wartime survival. Future post-war recovery in Ukraine could also be built on this.

While designing policies for Ukraine’s recovery (both post-war and in wartime), it is therefore important to make urgency a top priority. One implication of this is that **existing international and national institutions should be put to use** without spending time designing and seeking agreement on elaborate new structures. The idea of donor competition rather than coordination is not alien to most of those discussing Ukraine’s recovery, so imagining the complexity of such new agreements would not be hard. Use of pre-existing mechanisms and organizations, and their mandates would simplify and hasten aid disbursement.

**Leadership and ownership in Ukraine** should be ensured to provide policy continuity in the reconstruction process. This would also be an important factor in ensuring a people-oriented and decentralized approach: the closer to the ground decisions are made, the more efficient the recovery would be in terms of making the impact felt at the community level. Donors are often eager to choose projects that allow them to streamline efforts and funding within their own wider agenda or put a brand label on a large and successful project. This would often not be in line with wartime or post-war reconstruction needs. Ukraine’s ownership of the reconstruction process is therefore crucial.

At the same time, **accountability is a must** not only to ensure efficient spending, but also to create a favourable climate of public opinion in donor countries that resources are being well-spent. Accountability mechanisms might be simpler during war fighting, on account of the reduced capacity and the need for secrecy, but more sophisticated and transparent afterwards. Together with the above points, this means that high-level donor coordination and monitoring mechanisms should be put in place.

The aid architecture could then be modified in the post-war period with a greater focus on:

- ✦ boosting inclusion of the private sector through the war risks insurance scheme, to give greater preference to market mechanisms;
- ✦ streamlining reconstruction efforts with the EU integration processes by using pre-accession funds to comply with environmental and social standards;
- ✦ allowing partial localization and participation of Ukrainian actors not only in supply chain

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<sup>3</sup> The most recent [update](#) from the Centre for Economic Strategy predicts a loss of 30% of GDP, \$127 billion in damage to physical assets and 25% inflation.

elements, but also in decision-making processes to serve as a 'learning-by-doing' instrument;

- constantly improving monitoring and accountability systems for new post-war developments, allowing greater transparency and gradually increased capacity; and
- aligning support for EU accession reform with the need for rule of law reform to boost the private sector as this was a major bottleneck for investments before the war.

A group of Ukrainian thinkers has devised seven principles on Ukraine recovery plans,<sup>4</sup> of which urgency came at the top of the list:

- **Urgent:** Economic reconstruction and resilience efforts should begin immediately, not wait for an end to Russian aggression, and be steadily increased as the cessation of hostilities increases opportunities.
- **Transparent and Accountable:** transparency tools and mechanisms must be implemented at all stages, including clear public disclosure ensuring public access to data on finance agreements, public-private partnerships and concessions, public procurement and the use of funds, as well as accessible grievance mechanisms and multistakeholder monitoring mechanisms.
- **People-oriented:** plans must be inclusive and non-discriminatory both in participation (civil society, victim representatives and affected multi-stakeholders) and in the determination of beneficiaries; and at all times be human rights-based, maximize benefits to the civilian population and vulnerable groups, preference decision making and implementation closest to the affected populations (at the community and regional levels), and seek to avoid financing conditions that might prejudice social protections and public services.
- **Prioritize fulfilment of the UN Sustainable Development Goals to achieve “build back better” goals:** Recovery should be green, make a positive environmental impact and bring higher energy security.
- **The perpetrator should pay:** while the voluntary contributions of the international community and the government of Ukraine will play a part, priority should be reconstruction financed through the voluntary or seized assets of the Russian state and its oligarchs.
- **Consistent with international law:** compatible with Ukraine's desire to become a member of the EU, best practices should be implemented related to the application of social and environmental standards and safeguards; where seizures of an individual's assets and mechanisms to determine fault and assign remedies are concerned, these should be consistent with UN basic principles.
- **Ensure long-term economic sustainability when financing the recovery:** consistent with a national strategy on sustainable debt, grants should be preferenced over loans, and access to markets and foreign direct investment should be protected wherever possible.

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4 The full document with the names of the signatory organizations can be found [here](#)

In the period February to September 2022, Ukraine was losing around \$4 billion in fixed assets weekly.<sup>5</sup> This figure does not take account of the most recent attacks and the destruction of the approximately 30% of the electricity and power grid infrastructure. This means that the sooner Ukraine's military efforts succeed with a clear victory, the lower the amount of funding that would be needed for post-war reconstruction. Providing the **weapons and budgetary funds** required to sustain and even elevate the war effort should therefore be a top priority to allow Ukraine to fight and win the war.

Financing Ukraine's **immediate recovery needs** is also an urgent matter and this sense of urgency should not be lost behind donor competition or complicated and time-consuming designs. This is the second layer of urgent need after weapons and basic budget support.

There is also the important question of the sources of **financing for post-war recovery**. The World Bank estimated need at \$349 billion in September, before the major attacks on the electricity infrastructure. Private sector funding will therefore be crucial to avoid overstressing public sector funding capacities. Seized Russian assets must also be made available to Ukraine. Russia should pay as the aggressor, and western leaders should find a way to ensure that this happens, preferably sooner rather than later.

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<sup>5</sup> Estimate based on data from the "Russia will pay" project.



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