How to organize aid

Vladyslav Rashkovan
Brookings Institution – December 15, 2022
The Russian invasion brings enormous infrastructure damages, human capital and economic losses. Still proper estimation of the reconstruction needs required, but most probably it will be in the range of $500-1100 billion. The damages amount to approximately $500bn until the war ends. Economic losses are estimated at around $250bn, which is about 35% of GDP. Recovery/reconstruction needs are significant, requiring an investment of approximately $1.1 trillion in 10-15 years. In the immediate future, the investment needs are estimated at about $350bn in 5 years and $127bn in 10 years.
Post-war reconstruction will be a herculean task with many potential crossroads on a way... (1/2)

<table>
<thead>
<tr>
<th>Russian narrative of external governance of Ukraine by the consolidated West (neocolonialism):</th>
</tr>
</thead>
<tbody>
<tr>
<td>«Ukraine is a corrupted country, with poor non-reliable institutions; no money to be given to the authorities; that is why the West to control everything and impose its view on the policies and reconstruction»</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ukrainian sovereignty / ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>We know everything ourselves; don’t teach us how to manage our country, give us money and don’t ask how we spend them</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Short-term needs to prevail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheap and fast recovery / reconstruction is needed to allow people to return to their houses (this assumes modular housing, temporary roads etc)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Longer-term vision to prevail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconstruction is an opportunity to leapfrog a generation of technologies and a unique chance for the sustainable modernization of the country against post-soviet legacy – build back better concept!</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>National support</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU accession is a strong anchor, but there should be a room for support for non-EU countries (US, Canada, UK, Turkey etc)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institutional support</th>
</tr>
</thead>
<tbody>
<tr>
<td>We need to overcome potential disagreements/competition between the key institutions which have their own ambitions (EBRD - EIB, IMF - WB, OECD etc)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Potential element of the recovery architecture</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ukrainian ownership + Cooperation between the Ukrainian authorities and foreign partners is a key. Platform to be created</td>
</tr>
<tr>
<td>• Proper decision-making governance model to be put in place</td>
</tr>
<tr>
<td>• Modernization as a key target but not forgetting about immediate needs – fast recovery</td>
</tr>
<tr>
<td>• Coordination among partners is a key to make the process inclusive and effective</td>
</tr>
<tr>
<td>• Reconstruction is interconnected with the EU accession process</td>
</tr>
</tbody>
</table>
... and challenges - Existing institutions and funding instruments are inadequate to meet the scale and complexity of this endeavor (2/2)

**Loans and guarantees**
Bilateral loans or loans from the IFIs are understandable resource for Ukraine, but costly (even on the concessional conditions) and to be returned; loans and guarantees are also limited in size.

**Grants, reparations and private investments**
- Availability of grants depends on the limits in the country budgets;
- The legal frame for reparations is not clear
- The reconstruction should become a magnet for the private investments — major source for modernization

**Strong hand**
Rebuilding is faster under authoritarian rule, but such an approach makes European integration and modernization impossible

**Democracy and freedom**
Ukraine is a democratic state, but emerging democracy may make reconstruction a “never ending story” risking to leave Ukraine on the “back yard” of the European Union

**State Economy**
When the markets don’t function properly, there is a crucial role of the state during a war, but it is too risky to extrapolate the increasing role of the state post-war

**Potential element of the recovery architecture**
- **Grants** to prevail in the beginning
- Work on **reparations** to be intensified
- **Conditions for private capital involvement** to be created and preserved

**Liberal idea and economic freedoms**
Economic freedom (not the state) attracts foreign investment, which is key to increasing productivity, another aspect of modernization

- **Democracy and involvement of civil society and business** into the reconstruction / modernization
- **Liberal** economic policies to be implemented – the role/size of the state involvement should decrease post-war
To go through crossroads of the recovery a 10-element recovery architecture framework has been developed.
Needs, requests, pledges, commitments and disbursements are completely different figures – let’s hope that they at least overlap.
There are huge running costs of the country during a war. In no single month foreign partners managed to support Ukraine with $5 bln needed to close the current financing gap.

<table>
<thead>
<tr>
<th>Country / IFI</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral organizations</td>
<td>40</td>
<td>3,263</td>
<td>274</td>
<td>624</td>
<td>201</td>
<td>0</td>
<td>1,103</td>
<td>482</td>
<td>3,238</td>
<td>2,588</td>
<td>105</td>
<td>11,917</td>
</tr>
<tr>
<td>EU</td>
<td>667</td>
<td>131</td>
<td>612</td>
<td>1,016</td>
<td>482</td>
<td>1,955</td>
<td>2,534</td>
<td>7,397</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMF</td>
<td>1,411</td>
<td></td>
<td>1,283</td>
<td>87</td>
<td>54</td>
<td>105</td>
<td>2,694</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank</td>
<td>40</td>
<td>466</td>
<td>143</td>
<td>11</td>
<td>201</td>
<td>482</td>
<td>1,106</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EIB</td>
<td>720</td>
<td></td>
<td></td>
<td>720</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bilateral arrangements</td>
<td>0</td>
<td>125</td>
<td>1,410</td>
<td>870</td>
<td>4,216</td>
<td>500</td>
<td>1,700</td>
<td>3,588</td>
<td>1,500</td>
<td>499</td>
<td>15</td>
<td>18,477</td>
</tr>
<tr>
<td>USA</td>
<td>150</td>
<td>500</td>
<td>1,300</td>
<td>1,700</td>
<td>3,000</td>
<td>1,500</td>
<td>1,500</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>237</td>
<td>156</td>
<td>779</td>
<td>349</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>163</td>
<td>1,209</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>62</td>
<td>30</td>
<td>449</td>
<td>449</td>
<td></td>
<td></td>
<td></td>
<td>1,039</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>100</td>
<td></td>
<td>479</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>579</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>332</td>
<td></td>
<td>437</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>125</td>
<td>207</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>331</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>85</td>
<td></td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>106</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>49</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>49</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>5</td>
<td></td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Albania</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Island</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>40</td>
<td>3,388</td>
<td>1,683</td>
<td>1,494</td>
<td>4,416</td>
<td>1,700</td>
<td>4,691</td>
<td>1,982</td>
<td>3,736</td>
<td>2,603</td>
<td>1,952</td>
<td>27,686</td>
</tr>
</tbody>
</table>
No single institutional balance sheet can absorb Ukraine’s financing needs - Reconstruction to be supported by bilateral and multilateral donors and international organizations.

**Reconstruction needs ($500-1100 bn)**

- IMF
- G7+
- WB
- MDBs
- EU
- Russian assets
- Private capital
- Internal resources

**IMF**
- RFI
- RST
- SBA/EFF

**G7+**
- Bilateral loans / grants / guarantees
- IMF AA
- WB MDTF
- SDR
- DPLs

**WB**
- War insurance (MIGA etc)

**MDBs**
- Loans from EIB, EBRD, IFC, KfW, AIIB, JICA…
- Mostly to private sector probably

**EU**
- MFA/MFF
- Pre-accession & structural funds
- EU bonds (similar to NewGenerationEU)

**Russian assets**
- Seizure of Russian assets (Central Bank + oligarchs)
- Reparations
- Taxes / Levies from Russian export

**Private capital**
- Local and FDI
- PPP
- Equity injections
- Solidarity funds
- Crypto assets
- Debt relief

**Internal resources**
- War bonds
- Monetary financing
- Revenue mobilization
- Privatization
- Domestic debt market
- Eurobonds
... but financing of the reconstruction to be seen as a multidimensional task — still to be solved

Who and how to pay for reconstruction?

5 “horizontal” questions for post-war financing:
- How to change perceptions of the country as corrupt
- How to achieve efficiency & cost effectiveness in the reconstruction/rebuilding process
- How to ensure inclusiveness in the reconstruction process
- How to build trust between country authorities and partners/donors/civil society and make each party accountable?
- How to ensure timeliness of financing and other necessary steps in course of the reconstruction/rebuilding process

Sources
- IMF
- World Bank
- G7+ bilateral funding
- EU (pre-Accession funds + Rebuild facility)
- Development banks (EBRD, IFC, EIB, KfW)
- Seized Russian assets
- FDI
- Donations/philanthropy
- Remittances
- Government revenue mobilization
- Government borrowing
- Debt relief

Instruments
- Grants
- Direct transfers (of reparations/Russian money)
- Guarantees
- Loans
- FDI
- Solidarity funds from foreign business
- Liberty/freedom diaspora bonds

Vehicles / Institutional arrangements
- One or multiple donor pools?
  - What kind of coordination of multiple pools?
- Headquartered and administered where?
  - Inside or outside the country?
- New arrangements or existing ones?
- Organized and administered how?
- Bank or fund/funds?
G7 leaders supported the idea to set up the multi-agency Donor Coordination Platform for Ukraine recovery – the first meeting is scheduled for January.

- Together with Ukraine and G7 international partners and in close coordination with relevant International Organizations and International Financial Institutions, G7 establishes a multi-agency Donor Coordination Platform.
- Through this platform, G7 will coordinate existing mechanisms to provide ongoing short- and long-term support – with particular responsibility of the Finance Track for short-term financial support –, coordinate further international funding and expertise, and encourage Ukraine’s reform agenda as well as private sector led growth.
- G7 will also set up a Secretariat for the Platform.
- A senior government representative from each G7 country will be designated to the platform + representatives of the key IFIs
- The operation layer of the Platform is already working – meeting bi-weekly
- G7 Finance Ministers to convene shortly to discuss a joint approach for coordinated budget support in 2023.
- G7 re-affirmed that the International Monetary Fund (IMF) should be central to this effort.
Who will be a new Mr/Ms Marshall?
Implementation engine to be properly designed to “make reconstruction happen” in a most efficient and timely way

### Institutional Options

- **Separate national reconstruction agency**
  - **Advantages**
    - Independent and fully focused on reconstruction – task can be effectively addressed
    - Effective establishment of the mechanisms for resource allocation, procurement, staffing
  - **Disadvantages**
    - Takes time to establish and clarify its role and responsibilities
    - Possible disconnect from other government activities
    - May lack of local ownership
    - Difficult to phase out

- **National entity, Integrated into existing ministerial system (centralized coordination board)**
  - **Advantages**
    - Planning, budgeting and oversight system in place
    - Established links with the intl community, donor and partners
    - Sufficient implementation capacity
  - **Disadvantages**
    - The task may be not effectively addressed
    - Risk of lacking independence / leadership
    - Civil service rules impede recruitment of professional staff from outside

- **National entity/agency, Integrated into existing regional structures (decentralized coordination board)**
  - **Advantages**
    - Full local/regional ownership
    - Recovery usually linked with the regional distribution – therefore capacity will be there is most needed
  - **Disadvantages**
    - Potential inadequate / unequal capacity to manage a large reconstruction program – May not adequately address the reconstruction challenges
    - Civil service rules impede recruitment of professional staff from outside

- **International implementation support agency**
  - **Advantages**
    - Trust and access to the international community of donors
    - Planning, budgeting and oversight system in place
    - Established links with the intl community, donor and partners
    - Sufficient implementation capacity
  - **Disadvantages**
    - The task may be not effectively addressed
    - Risk of lacking independence / leadership
    - Civil service rules impede recruitment of professional staff from outside

- **Hybrid solution**
  - **Advantages**
    - Leveraging both – having a local knowledge and national level support
  - **Disadvantages**
    - Complexity in managing the process

---

---
A dedicated Public financial and investment accountability mechanism (PFM/PIM) to be built to ensure resilient and transparent recovery.