



EU Aid For Ukraine Reconstruction—Assumptions and Challenges

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On 18 May, the European Commission (EC) proposed a new financial instrument for the reconstruction of Ukraine and a mechanism for planning and coordinating international aid. The challenges will be to obtain sufficient funds and ensure an effective system for their use. Topping up the fund by confiscating Russia's reserves frozen in the EU remains an open issue. Poland may encourage the EC to increase the role of local governments and organisations in aid implementation and promote the country's experience in this field.

The Destruction and Ukraine's Approach to Reconstruction.

[The material and financial losses caused by the Russian invasion](#) since February are estimated by the Ukrainian authorities at around €560 billion, but as the war continues, that number keeps growing. Ukraine's GDP may fall by 30-50% this year, and tax revenues by 50-80%. The value of the damaged infrastructure alone amounts to about €98 billion so far, including 6,300 km of railway tracks (23% of the entire network), 23,800 km of roads (14%), 336 bridges and viaducts, 1,744 schools and kindergartens, 227 industrial sites, 643 healthcare facilities, and 44 million m² of residential buildings.

The Ukrainian authorities expect an international reconstruction programme for Ukraine modelled on the Marshall Plan. It would cover the costs of infrastructure reconstruction and modernisation of the economy, and would be based on assumptions worked out by Ukraine. In February, it applied for EU membership and it wants to link the reconstruction process with the implementation of the reforms required in the EU accession procedure. Donors may take patronage and support for cities, regions, and industries in Ukraine. International aid will be coordinated by the National Council for Recovery established in April, and the funds will be collected in the Ukrainian Recovery Fund. The Ukrainian authorities are demanding the confiscation and sale of Russian assets frozen by Western countries and transferring these funds for Ukraine reconstruction.

EU Assistance and the EC's Assumptions. In the years 2014-2021, the EU was the largest aid donor in Ukraine. Together with European development banks (e.g., the European Investment Bank, EIB), it transferred €17.8 billion, although 90% of this amount was loans. Since the start of Russia's invasion, the EU has supported Ukraine with €4.1 billion for armaments and to cover its humanitarian needs and current budget expenses. It also plans to give a low-interest loan of up to €9 billion. In the scope of the EU budget, until 2027 Ukraine can count annually on around €250-300 million in subsidies and €1.9 billion in guaranteed loans for investments.

On 18 May, the European Commission, based on guidelines from the European Council, presented a communication on short and long-term financial aid for Ukraine. The EC assumes four pillars of Ukraine's recovery: reconstruction of infrastructure; ensuring good governance and the rule of law; regulatory changes to deepen its economic and social integration with the EU; and, support for its sustainable development. In coordination with the Ukrainian authorities, the Commission intends to make the transfer of funds conditional on the implementation of reforms. The EC proposes to create a Ukraine reconstruction platform that will develop the aid assumptions, supervise the implementation of the funds, and coordinate activities with other donors, such as the G7 group, World Bank, and International Monetary Fund. The EC and the Ukrainian government are to co-lead the platform, which will include

as participants the Member States, international financial institutions, and others. The Ukrainian parliament and European Parliament will be observers.

The EC also aims to create a new fund with a special management structure, called the “RebuildUkraine” Facility. The Commission has not pointed out the level of financial resources the EU could contribute to this instrument but the funds are to come from the EU budget and voluntary Member State contributions, and be provided in the form of grants and loans. New sources of funding will be needed. The EC will consider, for example, the legal possibilities of using frozen Russian assets. On 25 May, it presented a proposal for a directive facilitating the confiscation of property of sanctioned persons in cases when criminal offense is proved.

Challenges. The EU will face many barriers in terms of obtaining adequate financing equalling at least several tens of billions of euros for the reconstruction of Ukraine. Some funds could come from the financial reserve (€9.5 billion) of the Neighbourhood, International and Development Cooperation Instrument. The scale of contributions from the Member States will be limited as the spending on the current humanitarian needs of Ukrainians is already a financial burden. They could decide to issue bonds by the EC, modelled on the EU reconstruction fund, but this solution might be hampered by [their differences on the issue of joint indebtedness](#). Some of the funds will be obtained from [the confiscation of private property of sanctioned persons \(from a total pool of €9.89 billion in frozen funds so far\)](#). This will require lengthy court proceedings, and it is difficult to determine how many of them will be successful.

One solution, although difficult to implement, would be to work with the U.S. and other states to confiscate frozen financial reserves of the Central Bank of Russia (CBR), as proposed by Poland, the Baltic states, and Slovakia (which does not have any Russian reserves on its territory). In 2021, 32.5% of the CBR reserves were held in euro (€177.3 billion), including 12.2% in France (€66.6 billion), 9.5% in Germany (€51.8 billion), and 3% in Austria (€16.4 billion). The amount of funds actually seized is difficult to estimate: France, for example, has publicly announced that it has placed a hold on only €22 billion of the estimated total. The confiscation of the CBR’s reserves is legally controversial because such funds are protected by customary international law and national law. Confiscating it for use in Ukraine will require the elaboration of an appropriate legal justification by Western countries to avoid Russia having effective recourse in the International Court of Justice or other bodies. While this is an issue discussed at the G7 level, a related challenge may be the limited political will to take this step in the EU. France has national laws restricting the confiscation of central bank reserves to encourage third countries to place them on its territory. It may be reluctant to change course,

especially given the risk of reserve withdrawals by other countries. On the other hand, in Germany, Finance Minister Christian Lindner has supported the confiscation of Russian state property.

The current approach of providing EU aid to Ukraine is not adequate to the needs of the reconstruction process. Reconstruction will require projects to be implemented mainly by the Ukrainian central authorities, local governments, and local organisations, and the creation by Ukraine of an effective system for managing EU programmes for this purpose. Since 2014, the EC has transferred funds to Ukraine mainly through programmes implemented by the EU delegation or large organisations that distribute funds (including the European Bank for Reconstruction and Development, the Council of Europe, and UN agencies). Although such a solution makes it easier for the EC to manage funds, it means high administrative costs for the implementation of programmes by partners and it reduces the budget for local projects. When deciding on the scale of implementation of aid by Ukrainian entities, the development of Ukraine’s institutional capacity to use the aid and ensuring the transparency of financing will remain a challenge. In 2021, Ukraine was ranked 122nd in Transparency International’s corruption perception (out of 180 countries), and only 17% of EIB funds were used for infrastructure projects.

Conclusions and Recommendations. The EC’s proposal is quite general and leaves many open questions for the Member States to negotiate when it comes to acquiring funds and their management. Differences might be expected in the use of EU budget reserves. The southern Member States may prefer to keep the bulk of these funds to cover expenses of an unforeseen migration crisis. Austria may oppose the confiscation of CBR reserves because of its economic ties with Russia. If the EU, which so far has been the leader in the implementation of international aid in Ukraine, fails to generate a sufficiently high amount of funds, the pace of the reconstruction process will be slower.

Poland may encourage the EC to implement aid mainly through local governments and local organisations. The EC can use the practices of structural funds and help Ukraine create a mechanism for onsite distribution. To minimise the risk of corruption, the EU may make the participation of non-governmental organisations compulsory in monitoring the funds. It could also increase the scale of expert advisory services on the preparation of relevant projects. Polish organisations can share their experience with Poland’s transformation. In light of Ukraine’s economic problems, it is advisable for the EU to follow the example of its [post-pandemic reconstruction fund](#) and to provide nearly 50% of its total aid to Ukraine in the form of subsidies.