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Creating a Mechanism for Financing the Post-War Economic Revival of Ukraine

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ANNOTATION. This article is dedicated to the financial aspects of the post-war recovery of Ukrainian economy. The article considers the issues of choosing the main approaches to solving organizational problems of creating a mechanism for financing the costs of the Post-War Ukraine's Economic Recovery Program. Recognizing the importance and complexity of measures to restore the country's socio-economic infrastructure destroyed by the War, the author focuses on Post-War Recovery, which should not be reduced to restoring the pre-war level and structure of the economy, but will mean the creation of an essentially new Modern Economy that will provide Ukraine with a worthy place in the Global Economic system. Solving this problem will require a choice between centralized and decentralized systems for developing such development programs and mechanisms for their financing. The author argues that the most effective will be a combined option that will allow for taking into account national and regional interests in practice. The decision on the choice of financial institutions through which the post-war recovery program will be financed looks no less important. It is a question of choosing between existing institutions and the need to create new institutions specifically designed for such work. Having analyzed international experience, the author concludes that it is possible to create a tandem of the EBRD-UkrEximBank as the main financial institution of the Economic Renaissance Program. Although it would be more effective to create a special institution in a timely manner – the Bank for Economic Renaissance (BER). Unfortunately, it seems that the time to create such an institution has been lost in the process of many years of discussions around the Ukrainian Bank for Reconstruction and Development. The next important direction is the choice of funding sources, which, in the author's opinion, should include funds from Ukrainian and foreign participants. The Ukrainian part (at least 35 percent) will consist of funds from the state budget, enterprises and individuals. To a large extent, such funds should be accumulated through special loans, including "diaspora bonds".

KEYWORDS: Ukraine, Marshall Plan, EU, economic recovery, banks, debt.

Introduction

The purpose of this article is to identify the main problems of creating a financial mechanism for the Program of Post-War Economic Recovery of Ukraine and to argue the author's vision of ways to solve them based on international experience and Ukraine's real capabilities. Understanding the

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practical problems that will arise in the process of performing such a task, the author, whose experience includes participation in collective work on the creation of several financial institutions (including with the participation of international financial organizations and foreign investors), assumes that this will require several "bifurcation points" – that is, the choice of one of two fundamental decisions, after which the logic of development will require fundamentally different directions of action to address a number of organizational problems.

The first bifurcation point will require a choice between Restoration and Economic Revival. It is understood that Restoration means rebuilding what was destroyed: infrastructure, enterprises, transportation arteries... That is, returning to the structure of the pre-war economy. "Revival" has a completely different meaning. This is what is sometimes called "*Build Back Better*" – in essence, the creation of a new economy: with a new sectoral and regional structure, new industries, new value chains, new integration ties...

The Forum "Economic Renaissance of Ukraine" focuses on the Renaissance – although the problem of recovery is no less, and perhaps more complex and urgent. In this context, it is worth mentioning the proposal of Alex Sundakov, former IMF representative in Ukraine, to create a special indemnity fund (Ukraine's Indemnity Fund).

For us, however, it is important that, depending on the choice between Restoration and Renaissance, a separate financing system will be created. But it may be different for each of the above-mentioned areas.

The dilemma of centralization and decentralization

Thus, the economic revival will also need to go through *a second bifurcation point:* the choice between a centralized and decentralized financing system.

A centralized system ensures that decision-making resources are concentrated in one city and can be used more efficiently. In addition, centralization allows for more effective control. At the same time, this option is more prone to bureaucratization (red tape practice) and, in the event of a corruption threat, losses will be more significant

As for *the decentralized system*, it allows for better consideration of local needs and diversification of financial sponsors (as some of them are willing to finance the needs of their own particular region, such as the city of origin of their family, sister city, etc.) and ensure their control over the use of such funds. Instead, such a system means dispersal of general funds and undesirable competition between individual regions and projects.

The central government, of course, prefers a centralized system and has already begun to create relevant structures and programs (such as United24[2], Ukraine Facility).[3]

On the other hand, some states and large corporations have taken patronage over Irpin[4], Bucha[5] and other destroyed cities, meaning not just to rebuild what was destroyed, but to actually revive these cities in a new capacity. In general, more than 300 communities in Ukraine have signed 1,500 agreements on revitalization support with partners from 60 countries.

On this basis, we propose to use *a combined option*, which envisages the creation of a Centralized Fund and at the same time a network of Local Funds, which would have broad autonomy but act in coordination with the Central Fund (CF) and with each other. According to this model, a single Economic Recovery Program is approved by the Government and the Verkhovna Rada (ensuring the so-called "Kyiv Consensus"). Subsequently, the Central Fund accepts for funding only projects that meet the approved priorities (they are put to a tender by the Fund's experts). And the Local Funds select projects in accordance with local priorities, which, in turn, are aligned with the overall Program).

This does not mean that uncoordinated, alternative projects should be left without funding at all. If they are truly efficient and profitable, they can find financing on the market.

Choosing financial institutions

Thus, we come to the question of the institutional structure of the financing mechanism. And we have *a third bifurcation point*. The choice is to *create new* financial institutions or to use *existing ones*.

History and international practice provide us with examples of both options. In particular, the Bank for International Settlements in Basel was established after the First World War precisely to service post-war reparations intended to restore the destroyed economy. The same logic guided the creation of the German bank KfW (KreditanstaltfьrWiederaufbau – Institute for Reconstruction Lending), which played a significant role in the Marshall Plan financing system. Eventually, the European Bank for Reconstruction and Development was also created to service financial flows intended for the economic recovery of post-socialist countries.

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[2] United24 – URL: https://u24.gov.ua/uk [In Ukrainian]

[3] Ukraine Facility. 2024. Economic Support Program: Implementation PlanUkraine Facility, 2024–2027. URL: https://www.ukrainefacility.me.gov.ua/

[4] How Irpin is being restored. *Ukraïner,* June 5, 2024- URL: https://www.ukrainer.net/vidnovlennia-irpin/ [In Ukrainian]

[5] Rybalska A. Reconstruction of Bucha: how international partners are helping to rebuild the city. *Suspilne Kyiv*, February 1, 2023. URL: https://suspilne.media/kyiv/371611-vidbudova-buci-ak-miznarodni-partneri-dopomagaut-vidnoviti-misto/ [In Ukrainian]

At the same time, the financing of the Marshall Plan programs in Austria and France was used by the existing *central* banks of these countries. In fact, the aforementioned EBRD or BIS, as well as Kfw, still exist and can be used to finance the postwar revival of Ukraine's economy. Just like the European Investment Bank. The National Bank of Ukraine also has experience in organizing project financing in partnership with the EBRD, and the state-owned Ukreximbank has the necessary correspondent relations abroad and an extensive network of institutions in Ukraine. However, the EIB has an operational area limited to EU countries; the BIS has long worked only with central banks (with a limited range of operations), and the EBRD has many of its own tasks that go beyond Europe, and it will be difficult for it to treat the new task as a priority.

Thus, it seems that one of the options acceptable to Ukraine is a scheme under which the European Bank for Reconstruction and Development will act as the main bank accumulating funds intended to finance the Economic Recovery Program of Ukraine, and its correspondent bank, Ukreximbank, will carry out the relevant transactions with the companies participating in the Program in Ukraine.

Perhaps a more acceptable option would have been to use *the Ukrainian Bank for Reconstruction and Development*, which was attempted to be created in Ukraine for similar purposes throughout the years of independence. Unfortunately, for various reasons, nothing came of it: a bank with this name exists, but it is purely commercial and owned by foreign (Chinese) investors. That is why BlackRock, the world's largest investment company, and JP Morgan Chase, an American financial holding company, are helping the Ukrainian government to create a Reconstruction Bank to channel state seed money to reconstruction projects that could attract hundreds of billions of dollars in private investment.[6]

However, there is a good alternative, from our point of view, the Kyiv International Financial Center. This idea has already been voiced at a conference in London last year (by David Schwimmer, the head of the London Stock Exchange)[7]. For our part, we have also tried to substantiate this idea in more detail[8], but unfortunately, it has not yet aroused the necessary interest.

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[6] Kasiyan V. Ukraine plans to create a Bank of Reconstruction with BlackRock and JP Morgan and a capital of $1 billion. *Liga.net,* January 17, 2024. URL: https://finance.liga.net/bank/novosti/ukraina-planiruet-sozdat-bank-rekonstruktsii-s-blackrock-i-jp-morgan-i-kapitalom-1-mlrd [In Ukrainian]

[7] Shevchuk S. URC 2023. The CEO of the London Stock Exchange told about the idea to create an international financial center in Kyiv. *Forbes Ukraine,* June 21, 2023 – URL: https://forbes.ua/news/ceo-lse-rozpoviv-pro-ideyu-stvoriti-u-kievi-mizhnarodniy-finansoviy-tsentr-21062023-14340 [In Ukrainian]

[8] Sharov O. M. Kyiv International Financial Center: Military Realities and Postwar Prospects. Ukraine's Response to the Systemic Socio-Economic Challenges of Today. Kyiv: SPE Interservice, 2023, pp. 34–36. [In Ukrainian]

Search for financial sources

The fourth bifurcation point concerns the choice of funding sources.

Rebuilding Ukraine will cost (according to various estimates and taking into account the fact that the destruction of its economy by Russian aggressors is still ongoing) about a trillion euros[9]. (And, by the way, this is not a fantastic amount. For example, some estimates put the cost of reviving Syria at 800 billion US dollars).

Of course, first and foremost, Ukraine must make all of *its own efforts and resources available* for postwar revival. But, given the scale of reconstruction, the Ukrainian taxpayer alone will not be able to finance such an ambitious project in a historically acceptable time frame. Even if we talk about co-financing, the practice of which involves 35 percent participation of the project owner (in this case, Ukraine), it is necessary to invest USD350 billion, i.e., a 7-year state budget. However, using the entire budget for such a program and cutting off funding for other expenditures would lead to social collapse. Since Ukraine does not have its own reserves, the government will have to borrow money, but unfortunately, due to the war, the creditworthiness of sovereign Ukraine is low.

Obviously, Ukrainians will also have to show understanding and sacrifice, at least following the example of the population of South Korea, when the earnings of Korean guest workers abroad were used as collateral for government loans or the population handed over their gold jewelry to banks at a reduced price in order to replenish the official foreign exchange reserves of the state during the financial crisis of 1997-98.Back then, 3.5 million citizens gave their gold to pay off the debt to the IMF (USD 58 billion)[10]. Most likely, the government will have to launch a broad program of "revival loans" (similar to the "war bonds" program currently in place). Special attention should be paid to the possibility of using the international experience of the so-called "diaspora bonds".

But even in this case, it is more or less realistic to say that such a sum can be allocated from the budget for at least 20 years, which will not allow achieving the main goal of the postwar economic revival – the "Ukrainian economic miracle."

Furthermore, the problem is that Western governments will not be able to simply transfer the first 100 billion, as their finances are still suffering from Covid-19 and the recent realization that their defense budgets need to be increased – Germany is talking about 100 billion euros of investment

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[9] Ukraine reconstruction may cost $1.1 trillion. *UkraineInvest,* 06/27/2022. URL: https://ukraineinvest.gov.ua/en/news/27-06-22-1/ [In Ukrainian]

[10] Holmes F. How Gold Rode to the Rescue of South Korea. *Forbes,* Sept, 27, 2016. URL: https://www.forbes.com/sites/greatspeculations/2016/09/27/how-gold-rode-to-the-rescue-of-south-korea/ [In Ukrainian]

in its army alone[11]. The EU economy as a whole, as stated in Mario Draghi's report, requires a massive investment – to avoid the EU's economic decline.[12]

In general, foreign direct investment (FDI) can only finance a small part of the reconstruction. And financing needs to start as soon as reconstruction can begin.

In this context, it is necessary to mention the frozen Russian assets. This is a rather specific topic that requires a thorough legal analysis. However, it must be recognized that there will be no contributions or reparations from the Russian aggressors. This means that the use of frozen assets is, in reality, the only option for compensation for the war damage by the Russian side. Doubts about the legality of such actions from the point of view of both international law and the legislation of individual countries, as well as existing practice, have long been dispelled by numerous studies[13]. Ukraine could also receive a "reparations loan" from Western countries under the guarantee of Russian assets, which will be offset by creditors if Russia refuses to pay reparations[14]. And if some political forces in the West are still not ready to take such steps, they should propose another option for compensation or do it themselves at their own expense (which would be illogical and unfair).

In terms of broad international assistance to Ukraine, it would certainly be desirable to have the absolute support of the UN. Then it would be possible to count on compensation mechanisms and payments similar to those used to compensate Kuwait for the losses it suffered as a result of the Iraqi invasion in the early 1990s. But such a scenario requires unanimous decisions of the UN Security Council, which cannot be counted on today because of the position and actions of the aggressor country. This certainly does not mean that Ukraine should not appeal to international courts. However, such appeals and the potential for UN decisions are unlikely to be the basis for developing appropriate financial mechanisms.

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[11] Germany commits €100 billion to defense spending. DW, February 27, 2022. URL: https://www.dw.com/en/germany-commits-100-billion-to-defense-spending/a-60933724

[12] The future of European competitiveness Part A. A competitiveness strategy for Europe – Brussels: European Commission, September 2024, 66 p.

The future of European competitiveness Part B. In-depth analysis and recommendations – Brussels: European Commission, September 2024, 327 p.

[13] Tribe L. H., Tolentino R .P., Harris K. M., Erpenbach J., Lewin J. The Legal, Practical, and Moral Case for Transferring Russian Sovereign Assets to Ukraine. New York: Renew Democracy Initiative, September 17, 2023, 187 + xii pp. URL: https://rdi.org/wp-content/uploads/2023/09/2023.09.17-MPP-Report.pdf; Frozen Russian Assets and the Reconstruction of Ukraine Legal Options. Ottawa, Canada: World Refugee & Migration Council, Research Paper, July 2022, 56 p. URL: https://www.wrmcouncil.org/wp-content/uploads/2022/07/Frozen-Russian-Assets-Ukraine-Legal-Options-Report-WRMC-July2022.pdf.

[14] Kryzhnyi A. The National Bank voiced another idea of financing Ukraine at the expense of Russian assets // *Ekonomichna Pravda*, May 29, 2024 – URL: https://www.epravda.com.ua/news/2024/05/29/714394/ [In Ukrainian]

Debt pressure

Before the war, Ukraine's public debt position was not very good, but acceptable: at the end of 2021, it stood at 48.9 percent of GDP, slightly above the critical level for developing countries (40 per cent) but well below the standard level for advanced economies (60 per cent). The average cost of debt service was about 9 percent per year for domestic debt and 4 percent for external debt. The total cost of debt service amounted to 2.9 percent of GDP.

But the decline of the Ukrainian economy as a result of Russia's invasion, coupled with a significant increase in public spending (which rose from 40 percent to 75 percent of GDP between 2021 and 2023), significantly increased both domestic and external debt. As a result, at the end of 2023, public debt amounted to 84.4 percent of GDP. (Given that a significant part of budget expenditures was made thanks to non-refundable grants from the United States, which reached USD 22.85 billion in 2022–2023. Unfortunately, the share of grant (non-refundable) financial support from our Western partners is decreasing – from 29 per cent in 2023 to 12 per cent in 2024, which significantly worsens the situation.

Public debt at the end of the year may even exceed 100 percent of GDP. This situation has led to an unprecedented increase in public debt service costs to 6.3 percent of GDP, or almost USD 12 billion in 2024. (Payments on external loans are as follows: first quarter of 2024 – UAH 19.8 billion, second quarter of 2024 – UAH 23.05 billion, third quarter of 2024 – almost UAH 195 billion, and in the fourth quarter there will be a decrease to UAH 75 billion).

According to Dmytro Monin, an independent expert and advisor to the Office of the President of Ukraine, the situation with Ukraine's debts and their prospects for the near future are as follows (Tab.1)

It should be borne in mind that Ukraine, having signed a four-year program with the IMF, is now replacing USD 10 billion of debt to the IMF (debt that arose before the war at rates of 2–3 per cent per annum) with another USD15.6 billion IMF loan (with interest rates of about 8.5 per cent per annum). As a result, as early as 2024, in addition to repaying the principal amount of the loan under the old IMF programs, Ukraine will have to pay about USD 900 million in interest on IMF debt service. Thus, having received USD 5.4 billion in loans from the IMF in 2024, Ukraine will need to increase debt service payments in 2025 to USD 1.1–1.2 billion.

In addition, there are Ukrainian securities in the form of so-called *value* recovery instruments (VRIs) or GDP warrants linked to 2015 GDP, which are valid until 2041.

Table 1

UKRAINE'S DOMESTIC AND FOREIGN DEBT, 2021–2025

Source of debt	2021	2022	2023	2024 (est)	2025 (est)
Domestic debt, billion UAH (at year-end)	1,063	1,390	1,588	1,796	2,000
Debt servicing, billion UAH	100	118	*200*	*232*	*262*
Debt servicing, percentage of GDP	1.83	2.27	*3.06*	*3.02*	*2.98*
External debt, billion USD (at year-end)	47.66	63.59	94.79	128.00	151.00
Debt servicing, billion UAH	57	40	49	*248*	*203*
Including IMF loans	3	7	*25*	*36*	*49*
Including Eurobonds	45	<u>26</u>	<u>1</u>	*153*	*76*
Debt servicing, percentage of GDP	1.04	0.77	0.74	3.23	2.31
Total state-guaranteed debt, billion USD (at year-end)	11.34	9.85	8.73	7.60	6.50
Total public debt, billion USD (at year-end)	97.96	111.45	145.30	178.36	201.94
Total public debt, percentage of GDP	48.9	78.4	84.4	97.6	103.3

Source: [15].

At the same time, Ukraine's sovereign credit ratings are too low to successfully raise funds on the international debt (bond) market: Moody's – Ca with a negative outlook (as of Feb. 13, 2024), Standard&Poor's – SD – selective default (as of Aug. 5, 2024), Fitch – RD – restricted default (as of Aug. 13, 2024). All three ratings are one or two notches below standard investment grade credit ratings.

However, the government hopes that it can be raised. According to IMF experts, Ukraine will be able to regain access to international capital markets relatively quickly after the completion of the joint program in 2027 (it took only two years after the 2015 debt restructuring). But the estimated amounts do not even come close to what is needed when compared to Ukraine's recovery needs.[16]

It is clear that *the deterioration of Ukraine's public debt is due to non-economic reasons*, namely Russian military aggression, which should be considered as force majeure and a violation of international law. Accordingly,

[15] Monin D. "Will Ukraine Default on Its Debt?" Wilson Center, July 3, 2024. URL: https://www.wilsoncenter.org/blog-post/will-ukraine-default-its-debts, based on Ministry of Finance of Ukraine (*Note*: numbers in red (italics) indicate growth into risk zone, in green (underlined) – credits with payments postponed for 2022-2023).

[16] Ash T., Garrard A. It's time to get creative on Ukraine's debt. OMFIF, July 13, 2023. https://www.omfif.org/2023/07/its-time-to-get-creative-on-ukraines-debt/

the response to such a deterioration should not be standard and should include the efforts of the entire international community.

In such a situation, we believe that the main task should be to continue working towards *debt relief and to change the structure of financial assistance* (reducing its debt share and increasing the share of grants and subsidies).

Despite the statements of the Ministry of Finance of Ukraine that there are no problems with the fulfillment of public debt obligations, it is likely that such difficulties will arise in the future. Moreover, in the postwar period, the issue of maximizing the concentration of available financial resources to solve the country's purely domestic economic problems will inevitably arise.

In this case, the restructuring of debt obligations to *official and private* creditors will be extremely delicate, as it will *de facto* be a default by Ukraine. This will hinder the attraction of new *foreign* investment, although it will help to direct the freed-up resources to more urgent needs of the state. Thus, the issue of such restructuring should be resolved taking into account the overall balance of the country's financial capabilities and the level of its actual support by key Western partners, primarily the United States, the EU, and the United Kingdom, which have significant influence in the IMF and in two global creditors' clubs – Paris and London – which are not formal organizations but follow certain procedures for resolving international debt relations.

The activities of both of these clubs involve the participation of the IMF, which is decisive in a number of issues.

Thus*, given how difficult it has been to reach an agreement on restructuring Ukraine's debt in 2024*[17], it would be appropriate to ask the IMF to organize a group of Ukraine's international creditors (the Kyiv Club) under its auspices to comprehensively address Ukraine's debt problem.

In this regard, the main task should be to *write off debts and change the structure of financial assistance* (reducing its debt share and increasing the share of grants and subsidies), and in this regard it is desirable to achieve by diplomatic means that our partners in the IMF (first of all, the Netherlands, which heads the relevant group of countries represented in the Board by one director) officially raise the issue of the IMF writing off Ukraine's debts. It should also be borne in mind that, technically speaking, this requires that the IMF and the World Bank first change the classification of Ukraine from a country with a *medium-intensity* conflict to a country with a *fragile and conflict-affected situation*.

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[17] Bouissou J. The complicated restructuring of Ukraine's debt. *Le Monde*, June 25, 2024. URL: https://www.lemonde.fr/en/economy/article/2024/06/25/the-delicate-restructuring-of-ukrainian-debt_6675633_19.html

Thus, in the coming years, two goals can be achieved: reducing the existing debt burden and attracting additional non-debt financial resources to be used to finance the aforementioned program of Ukraine's economic recovery. This combination of measures and their financial support can be conditionally called a "*Marshall Plan for Ukraine*." The heads of the governments of Great Britain and Poland, the Minister of Finance of Germany, etc. have already called for the creation of such a program. However, it is difficult to find at least one country or economic bloc/alliance that would be willing to play a leading role in financing Ukraine's development. At best, it is only a matter of participation. Moreover, in some cases, certain EU member states oppose such participation altogether, blocking the initiatives of the entire Union.

Thus, a special fund to support Ukraine, which has already been created by the United Kingdom, Denmark, Lithuania, and Iceland, could be used as the financial basis for a "Marshall Plan for Ukraine." (Parallel funds created by Japan and Sweden could also be included in a single program.) Of course, the main amounts should come from the frozen reserves of the aggressor country. Significant amounts can be offered by international financial institutions and the United States. It is clear that negotiations on this issue should already be considered one of the main tasks for the Ministry of Foreign Affairs with the participation of the relevant executive authorities (Ministries of Finance and Economy) and the National Bank of Ukraine.

At the same time, international financial organizations (IMF, World Bank, EBRD, European Investment Bank, etc.) may form the basis of a group of international financial donors for the Postwar Economic Recovery Program of Ukraine. It can also be expected that the governments of the EU, the US, the UK, and possibly some other countries (Australia, Japan, etc.) will join it.

Given the established practice, the work of the Fund for financing the reconstruction of Ukraine will require expert assessments by the IMF. Therefore, restoring effective working relations with the Fund will require special attention from Ukraine. And these should be inclusive relations, which, as follows from international experience and as we have repeatedly argued[18], involve both MPs of different factions and civil society institutions.

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[18] Sharov O. M. Ukraine-IMF Relations As An Important Factor of the National Economic Security. *Journal of European Economy*, vol.16 (3), 2017, September, pp.330–356)

Sharov O. M. Ukraine and the IMF: Lessons of Global Diplomacy. *Ukraine Diplomatic*, issue XVIII, Kyiv, 2017, pp. 633–644.

Sharov O. M. Difficulties of translation or existing approaches to cooperation with the IMF and real opportunities. Economy of Ukraine, No. 5, 2019, pp. 19–27

Conclusions: what to do and where to start

The level of stability and development of the Ukrainian financial and banking system allows it to be used to organize financing for the economic recovery program of postwar Ukraine, but only as an additional element of the lowest level. This means that existing commercial banks-which have a sufficiently extensive network of regional branches and relevant experience working with foreign partners, including international financial organizations (most likely state-owned, such as Ukreximbank and/or Privatbank) – could be used to maintain accounts of direct users (beneficiaries) and control the targeted use of funds received under the program, in cases where this is considered more rational than performing these functions by a specially created financial institution.

At the same time, taking into account historical experience (in particular, the Marshall Plan) and recommendations of international experts, a newly created financial institution should become a key element of the mechanism for financing the postwar economic recovery – conditionally: Bank for Economic Recovery (BER).*

It is fundamentally important that the BER be the only institution that concentrates all operations related to the financing of the Recovery Program. (But this is a topic for a separate paper on with more detailed proposals on the procedure for the establishment and operation of such institutions).

Thus, it is proposed that the functions of financial institutions (funds, agencies, etc.) already existing or being established in the country that have the purpose of accumulating and using funds for the financing of post-war economic recovery should be transferred to the BER – either by incorporating such funds into the BER or limiting their functions to the accumulation of such funds and then transferring them to the BER for use in accordance with the rules and procedures adopted by the BER.

Based on existing international practice, it should be expected that domestic funds (budgetary, resident private investors, raised through special loans, etc.) should account for approximately 35 percent of the total amount (although the state of the post-war economy is unlikely to allow this condition to be met, given the damage caused by the war).

In any case, it is clear that the financing of post-war economic recovery (FPWER) will mainly use funds received from abroad (grants and loans from partner states, the EU, IFIs, private contributions, Russian

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* After the author first made such a proposal, the Draft Law on the National Development Institution was submitted to the Verkhovna Rada of Ukraine, according to which it would be allowed to carry out a wide range of credit and financial operations necessary to "provide financial and other support for the development and reconstruction of the Ukrainian economy". Thus, in fact, it is a "development bank" in the form of a specialized corporation (which is in line with international practice). In other words, the adoption of this Law will mean that the Ukrainian authorities have already made the choice envisaged in the "third bifurcation point". *(author's remark. – Ed.)*

"reparations," etc.), which in turn raises the question of cooperation with an external financial institution that will be responsible for accumulating such funds and monitoring their further use in Ukraine. In the West, the process of creating such institutions has already begun, but it is clear that the absence of such *a single* external center for concentrating resources will greatly complicate the work of the BER in obtaining the necessary funds.

It seems logical to create such an institution – the International Finance Facility for Ukraine's Reconstruction (IFFUR), or abbreviated as the Ukraine Recovery Fund (URF) – in the largest financial center of Europe, London (due to the authority of British banking legislation and practice, the role of the UK as an intermediary between the EU and the US, and the depth of involvement of the British government and business community in the "Ukrainian issue"). The leadership of the DFI should be entrusted to a well-known person in political and business circles with due authority, such as the current Canadian Minister of Finance Chrystia Freeland (an ethnic Ukrainian), or former British Prime Minister Boris Johnson.

As an option, the project of establishing a BEV with registration in London and a subsidiary (branch) in Kyiv can be considered. This will ensure the unity of policies and procedures, as well as simplify control over the use of borrowed funds by a single supervisory body (which should consist of domestic and foreign *independent* experts).

Among other things, these specialists should ensure good mutual monitoring, which can be achieved, first, through excellent program design with a very strong, irrefutable logical structure of objectives, outcomes and indicators. The progress of the process should be monitored transparently in line with the logical framework of the program, publishing progress reports every six months during the Performance Review Committee meeting – even maintaining the monitoring framework online and updating it quickly. What will make monitoring mutual is that the entire structure of the Foundation is shared, from the board to the field offices.

At the same time, there is a high probability that international donors may not agree with the government creating an entirely new institution in the country – from scratch – because they fear that it will be: a) slow, b) a waste of resources to create it, and c) less efficient. Thus, a weakness of this option could be the time wasted on registration and staffing of the newly created financial institutions (BER and DGF). This could be avoided by assigning these functions to existing financial institutions.

On the Ukrainian side, this could be the National Bank of Ukraine or Ukreximbank (which would carry out transactions using a network of correspondent banks, as discussed above).

However, using the National Bank of Ukraine as a depository for deposited funds will not be possible, as donors may not agree to it: some may consider it dangerous (especially in terms of influencing monetary policy);

it may complicate the work of the central bank, which already has many tasks; Ukrainian laws may also make it uncomfortable by giving too much power to the NBU.

Thus, it may be necessary to create a special institution composed of parts of existing institutions, internal and external. One cannot use a single ministry or agency, but it is possible to take over a part of an existing ministry or agency, separating it from the entire institution and changing its management to instantly create a new institution for development.

As for an external institution, the World Bank seems too dangerous an option, as the IBRD is likely to be too slow and apply too many of its own rules and procedures. However, the Global Fund to Fight AIDS, Tuberculosis and Malaria managed to negotiate an agreement with the World Bank more than 20 years ago, and now the funds are simply distributed to a specific bank account within three days of receiving a signed instruction from the Fund. The World Bank has no right to make decisions on the use of these funds. So, in principle, such an arrangement is possible.

However, according to most experts, the EBRD (London) or the European Investment Bank (Luxembourg) could better perform the functions of an external institution for the FPWER, although, in the opinion of many experts, the efficiency of their work on the FPWER may not be high enough due to the presence of many other functions and programs. Given this, it is possible to consider the option of entrusting the external functions of the FPWER to the Bank for International Settlements (Basel), which was once created to accumulate reparations funds after World War I (but has long been focused on other functions).

However, when using an international financial institution as a servicing bank, it should be made sure that it is only an "automatic cashier" and that it does not control the process.

Another option for a quick solution to the institutional problem is to use the existing international experience in organizing financing for urgent needs. For example, in 2006, under the leadership of the United Kingdom, a number of governments (donors) created a financial mechanism to provide advance funds for vaccination of children in the poorest countries of the world: The *International Finance Facility for Immunization* (IFFIm), registered in the UK, has received multi-year funding guarantees of more than USD 6 billion from highly rated governments. Based on these guarantees, IFFIm received a credit rating of AAA and was able to immediately start borrowing on the international bond markets. The borrowed funds – the first bond issue was for USD 1 billion – were directed to a special company, the GAVI Alliance, which is directly involved in large-scale vaccination. As for IFFIm, this fund operates exclusively as a financial mechanism: it has no permanent office or staff and is managed by 5–6 directors on a pro bono basis. Most functions are outsourced to other institutions: The World Bank handles treasury management (i.e., execution of bond issues, hedging of USD collateral, cash management, risk reporting), and GAVI provides the management infrastructure. IFFIm's Board of Directors decides on the issuance of bonds and approves the transfer of funds to GAVI for vaccination campaigns. IFFIm uses the renowned law firm Slaughter and May for legal work and is audited by the World Bank's auditing firm. The board of directors consists of financial professionals (the current chair is a former World Bank treasurer) and is not politically appointed. No donor country is represented on the Board, as IFFIm has a technical function rather than a political mandate.

A similar rapid response financial mechanism could be created for Ukraine. This would allow donor governments to make multi-year commitments to Ukraine. Such commitments could extend for 20 years or more. In this way, governments with limited current budgets could make a significant contribution to the country's reconstruction.

If donor countries make multi-year commitments, the goal would be to have only the commitments that are due in the respective current year recognized in that year's budget. In other words, if country x has made a donation of USD 1 billion divided into 10 payments from 2024 to 2033, then country x would not want its budget in 2022 to be affected by USD 1 billion. Instead, the budget for 2024 should be achieved at USD 100 million, 2023 at the same amount, and so on. This was achieved in the case of IFFIm by building a certain structure into the payment obligations, which can be replicated in the DFI.

In such a case, the DGF could immediately borrow on the global credit market against the provided funding guarantees. Depending on the total amount of such guarantees and the credit rating of the institution, a bond issue of more than EUR 5 billion/USD could be possible.

The Fund should be set up as a financial institution, not as a project finance organization. Thus, it will have to cooperate with other development finance institutions (DFIs) that are involved in reconstruction and project management, such as the World Bank, EIB, EBRD or IFC, etc.

The creation of such an international financial institution requires several fundamental decisions, including the composition of the donor countries, the place of registration of the institution, etc. The main sponsoring government would have to act as a host, providing the infrastructure and, importantly, persuading other governments to contribute.

The foundation should be registered outside of Ukraine, e.g. in Switzerland, the EU or another highly rated country. Ideally, it should have supranational status or be otherwise exempt from taxes. (For example, the status of a charitable organization exempts IFFIm from paying taxes).

Such a Fund should be managed professionally without political interference. The supervisory board should consist only of professionals selected on the basis of financial competence and not for political reasons.

Given the fact that the Ukraine Recovery Fund is likely to be significantly larger and more complex than the IFFIm, it may be advisable to consider establishing an organization with its own office and key staff, and outsourcing only certain functions, e.g., outsourcing (i) back office, (ii) independent risk management, (iii) reporting, (iv) accounting, (v) auditing. Having in-house staff has the added advantage that the Fund will not be limited to IFFIm-type transactions, but will also be able to manage support for Brady-bonds (bonds guaranteed by other governments, e.g., the United States), guarantee programs, or other innovative financing concepts developed later.

Returning to the general principles of organizing the financial mechanism, it should be emphasized that it is not advisable to separate its external and internal elements because of the high risk that real power will be in the external element (closer to the inflow of money). In this case, decisions will depend on external considerations that are completely alien to the Ukrainian situation, as parliamentarians and civil society groups in donor countries exert considerable pressure on issues that are important domestically, not in Ukraine. Every lobby (e.g., the anti-nuclear lobby) will be represented, and their own NGOs will be seeking more money.

Thus, a single mechanism or "Fund" should be created with two pre-agreed elements: international (external) and national (internal).

The idea is to have the highest decisions at a) the international level of the Board of Directors and then have a b) National Committee that will oversee the Fund’s operational center in the country. The secretariat of both the Board and the National Committee should be located at the headquarters of the Fund Operator in Kyiv, whose CEO will spend a lot of time working with them. The Secretariat, like the Fund Operator, should combine international or seconded staff with national or seconded staff. Meetings of the international board may take place sometimes in Kyiv, sometimes in another European capital.

The international board of directors should be composed of a majority of international members who reflect the main contributors and stakeholders. For example: one seat for the US, one seat for the EU, one seat for the UK, one seat for Japan, etc. Consideration should be given in advance to whether there are non-Western funding sources that would be desirable to be part of the process, even if they could not/did not support the military effort. If they are willing to contribute funding on a large scale, they may wish to have a seat on the Council.

Ukraine is going to get 40–50 per cent of its funding from the US and the EU, both of which will want to play major roles. Among the medium donors will be the UK, Japan, Canada, Australia. Many will want to contribute. Countries like Turkey will contribute. The response can be quite broad, attracting contributions from non-traditional donors such as Mexico, Saudi

Arabia, the UAE, etc. China and India can also contribute. China prefers to fund projects directly, on a bilateral basis, but this can be taken into account in the context of the overall goals of the Program.

International financial organizations and the UN should also have a place, but perhaps not all separately. About 25 per cent of Ukrainian members would be sufficient, including representatives of Ukrainian civil society and the private sector. A representative of the Ukrainian government on the Council would be very influential and possibly chair. The Head of the National Committee, the CEO of the Fund Operator and the Head of the Independent Efficiency Office should attend Board meetings, make presentations and answer questions, and the Fund Operator should also provide the secretariat of the Board.

The National Committee should have perhaps half Ukrainian representatives (not only from the government, but also from civil society and the private sector). The other half would be international representatives. (If there are foreign embassy staff in Kyiv, it will be necessary to make sure that the ambassador understands that their country's representative will have to devote significant time to this task, perhaps meeting monthly.) The World Bank, EBRD, IMF and the UN Resident Coordinator's Office should also be represented. The participation of individual country representatives involves a financial contribution, as at the Board level. (Note that in some cases, country interest will be driven mainly by a desire to see their companies win contracts.)

Major donors and international organizations should be invited to appoint people to the mechanism (in Kyiv) in important roles – leadership and professional – and well in advance, even before the fighting stops. They may not be in the country yet, but they may already be appointed and thus ready to jump start when the opportunity arises.

The international staff of the Fund Operator will strengthen communication with their home organizations and build trust. They will remain "seconded staff," but a strong leader can also mold them into a team for Ukraine.

This can work if there were a Ukrainian CEO with excellent international experience and good English, and two international deputy CEOs (certainly one American and one European).

In contrast to previous similar examples in some other countries, the seconded staff should be senior people with influence in the country and experience in managing abroad in difficult situations. At least half of the staff recruited or seconded abroad should speak Ukrainian. (This language issue is important for team integration and should be insisted on.)

When choosing any of these options, it is necessary to ensure that the special financial institution to finance the postwar economic revival of Ukraine is governed *by the following principles*:

- *Comprehensive* approach to the program of measures to be financed.
- Focus on *efficiency*: The Fund should be guided by a commitment to efficient use of funds, with a very strong emphasis on the "effectiveness" of the recipients of funding.
- *Innovative*: In previous experience, such reconstruction funds have had many challenges that need to be addressed and something new needs to be offered in terms of organization, financial instruments, etc. It will attract even more attention from donors if they feel that this is a new example that brings political benefits.
- *Integration*: The Fund should be an integrated entity with common goals and performance indicators and be governed by a single international Board. It may have sub-funds, especially for the private sector.
- *A multi-stakeholder partnership* between the government of Ukraine, donors, the private sector and civil society that brings these different forces together under one umbrella. Partners should play an active role in governance, management and implementation.
- *Transparency and accountability*: this refers to effective results in general, not just the fight against corruption. Post a large amount of information about the Foundation's activities on its website.
- Utilization and reproduction of *the Ukrainian national potential*, which is greater than in many countries where such programs have been implemented before.

Thus, in order to establish a Fund for revival of Ukraine, it is necessary:

(i) To identify the range of donor countries.

(ii) Donor countries should decide whether they want to continue with the concept of the International Financial Facility for Ukraine's Recovery and make multi-year commitments to IFFUR instead of one-time payments.

(iii) The place of registration must be agreed upon.

(iv) The basic structure should be determined: company or supranational organization, tax status, in-house staff or "light" structure.

(v) A budget for the establishment of the IFFUR should be determined.

(vi) Establishment of a Working Group to be tasked with the establishment of IFFUR.

The fundamental point in the discussion about the FPWER is the choice of the basic rule for accepting projects: they must be highly profitable projects or they must meet certain government priorities.

The recommendations of the experts involved agree that the funding mechanism should be set up to finance not individual projects, but a single comprehensive program for the post-war economic revival of Ukraine, based on a comprehensive analysis and forecast of the geo-economic consequences of the war and the state priorities for the future economic development of Ukraine.

The design of the program should not be allowed to be dominated by another organization. Instead, the process should be well managed at the national level, taking into account all suggestions and comments from external experts. Some limited assistance can be accepted, but make sure that it comes from several very different organizations. Otherwise, there is a high risk of losing ownership, as all will secretly believe that "this is a World Bank project" or "a European Commission project". One needs to make sure that everyone knows that it is a Ukrainian project.

Ultimately, the international board of directors must approve the program design as well as the overall plan of operations. It is important to have concrete proposals in place early. Consultations with major donors are key, but it is important to come with our own, well-founded ideas. It may be necessary to conduct a first round of "listening" and then, in a second round, come back with a "rough proposal" while remaining firm on the fundamental issues.

Such an economic recovery program should be *owned* by all its implementers. That is, it should be prepared on the basis of a transparent discussion, as a result of a broad expert debate. Consensus must be reached, not just the approval of another government program. Program (including the basic principles of financing) should be approved by the Verkhovna Rada of Ukraine, since it not only defines the state priorities for the development of the post-war economy, but also provides for financing from the budget, state guarantees, and funds from foreign creditors and grantors who transfer such funds to the state.

Different opinions have already been expressed about the main priorities of the "new Marshall Plan". Some perceive the revival in the sense of direct "restoration", i.e. preservation of the existing industrial and energy-intensive economic model; others say that the agricultural sector and energy conservation are prioritized, and some put the "knowledge economy" and the innovation economy in the first place: from development to implementation.

The issue of *fighting corruption* remains acute: both in terms of allocating the Plan's funds for this purpose and (to an even greater extent) guaranteeing the targeted use of the funds received.

Creating the right conditions for economic development is a very important topic, and hence the issue of reforming the tax system and debt policy (i.e., perhaps even more broadly, the state's fiscal policy in general). Or the issue of demonopolization and support for small businesses.

The development of such a clear program is a key aspect of a new "Marshall Plan" for Ukraine – although it is not easy to do (as evidenced by years of discussions on this issue and numerous government programs). But there is no other way out – we cannot keep trying to jump the "economic chasm" in two jumps. We need to reach an agreement on the main points and directions of reforms. And in this context, *a good decision today is better than a great decision tomorrow*.

Of course, in the course of implementing this approach, it will be necessary to make some changes to the work plan for various reasons, including Ukraine's real political and institutional capabilities, as well as the requirements and wishes of international partners. Nevertheless, this work should be started as soon as possible and as actively as possible.

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