
Financing Ukraine's recovery

Consequences for
the EU budget and
budgetary control,
and principles for
success



IN-DEPTH ANALYSIS



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This paper provides detailed insight on the use of the EU budget to support Ukraine and Ukrainian refugees. It explains the recent Commission proposal for a new 'Ukraine Facility' to finance the country and its recovery in the years 2024 to 2027. Furthermore, the paper addresses the challenges of ensuring full parliamentary scrutiny, democratic oversight, and effective budgetary control of the enormous amounts spent on Ukraine's recovery. On top of that, the paper presents principles for a successful recovery.

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Executive summary

Ukraine's recovery and EU accession will be a defining project of the European Union in the 2020s. The costs will be massive. A regularly quoted number for the cost of recovery is €383 billion, based on a damage assessment carried out by the World Bank. However, until Ukraine has liberated all territories temporarily occupied by Russia, that number will rise further.

The EU and its Member States, together as 'Team Europe', have committed approximately €72 billion in financial, military and humanitarian support for Ukraine and its people, including for Ukrainian refugees in the EU, as of June 2023. On top of that comes an additional €50 billion for the EU's Ukraine Facility proposed by the European Commission on 20 June 2023 ahead of the Ukraine Recovery Conference in London the following day. Considering the large amounts of EU money involved, full democratic scrutiny of the spending by the European Parliament and effective budgetary control measures are crucial.

Not all of the recovery can and will be financed by the public sector. Ukraine – with the help of the EU and other partners – has to create the right environment for private investment as fast as possible. An overall security guarantee for Ukraine and financial guarantees for early private investments are as essential as strengthening of the rule of law through more transparency, judicial reform and anti-corruption measures.

A democratic Ukraine based on the rule of law and with a vibrant market economy would serve as a beacon of freedom and prosperity, and could thus act as a successful catalyst for democratic change in the whole region.

Table of contents

1. 'Team Europe' financial support for Ukraine: State of play	1
2. Consequences for the EU budget	3
2.1. The EU's 2021-2027 long-term budget	3
2.2. MFF mid-term revision and new separate 'Ukraine Facility'	4
3. Consequences for EU budgetary control and principles for a successful recovery	7
3.1. A democratic Ukraine as a beacon of freedom and prosperity on Europe's eastern flank	7
3.2. World Bank assesses cost of Ukraine's reconstruction at €383 billion	8
3.3. Principles for a successful recovery	8
3.3.1. Security for Ukraine – and its investors	8
3.3.2. Coordination of international donors and democratic scrutiny	9
3.3.3. Build back better: Green, digital and social	11
3.3.4. Strong anti-corruption procedures and institutions, and judicial reform	11
3.3.5. Privatisation and private investment	13
3.3.6. EU accession and partial access to the EU internal market	13
3.3.7. Involving civil society	14
3.3.8. Mobilising confiscated Russian assets	15

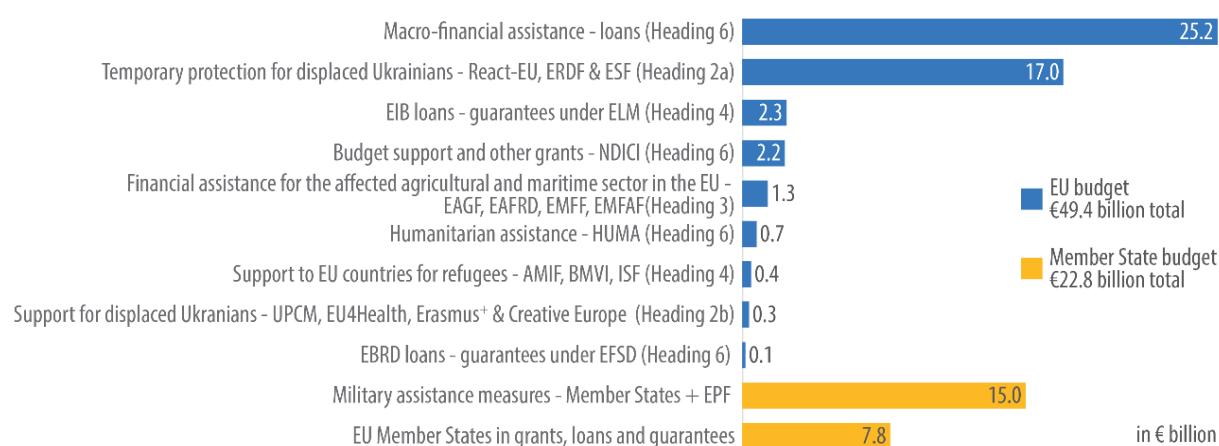
Table of figures

Figure 1 – Team Europe financial, humanitarian and military support for Ukraine totals €72 billion before the mid-term revision of the multiannual financial framework and the 2023 Ukraine Recovery Conference in London	1
Figure 2 – Financial and humanitarian aid for Ukraine (figures pre-2023 Ukraine Recovery Conference in London and excluding military aid)	2
Figure 3 – Overall margins 2021-2027, (commitments, € million)	3
Figure 4 – Development of margins for the 2024 budget year (commitments, € million)	4

1. 'Team Europe' financial support for Ukraine: State of play

The EU and its Member States together have so far committed approximately €72 billion in support for Ukraine and its people, based on the most recent figures provided by the European Commission (see Figure 1). That includes financial, humanitarian and military support. From that €72 billion, around €50 billion is provided from or guaranteed by the EU budget. That €50 billion has been drawn from nearly all headings of the EU budget, but mainly from Heading 6, Neighbourhood and the world. The remaining amount has been provided by the Member States. The additional €50 billion 'Ukraine Facility', proposed by the European Commission on 20 June 2023 for the years 2024 to 2027¹ just before the 2023 Ukraine Recovery Conference on 21-22 June in London is not yet included in those figures. If adopted, the new facility would bring Team Europe's total support for Ukraine and its people to €122 billion, and support from the EU budget alone for Ukraine and Ukrainian refugees to €100 billion.

Figure 1 – Team Europe financial, humanitarian and military support for Ukraine totals €72 billion before the mid-term revision of the multiannual financial framework and the 2023 Ukraine Recovery Conference in London



Abbreviations: Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU), European Regional Development Fund (ERDF), European Social Fund (ESF), European Investment Bank (EIB), External Lending Mandate (ELM), Neighbourhood, Development and International Cooperation Instrument (NDICI), Humanitarian Aid and Civil Protection (HUMA), European Bank for Reconstruction and Development (EBRD), European Fund for Sustainable Development (EFSD), European Union Civil Protection Mechanism (UPCM), Asylum, Migration and Integration Fund (AMIF), Border Management and Visa Instrument (BMVI), European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD), European Maritime and Fisheries Fund (EMFF), European Maritime, Fisheries and Aquaculture Fund (EMFAF) and the European Peace Facility (EPF).

Data source: European Commission, May 2023.

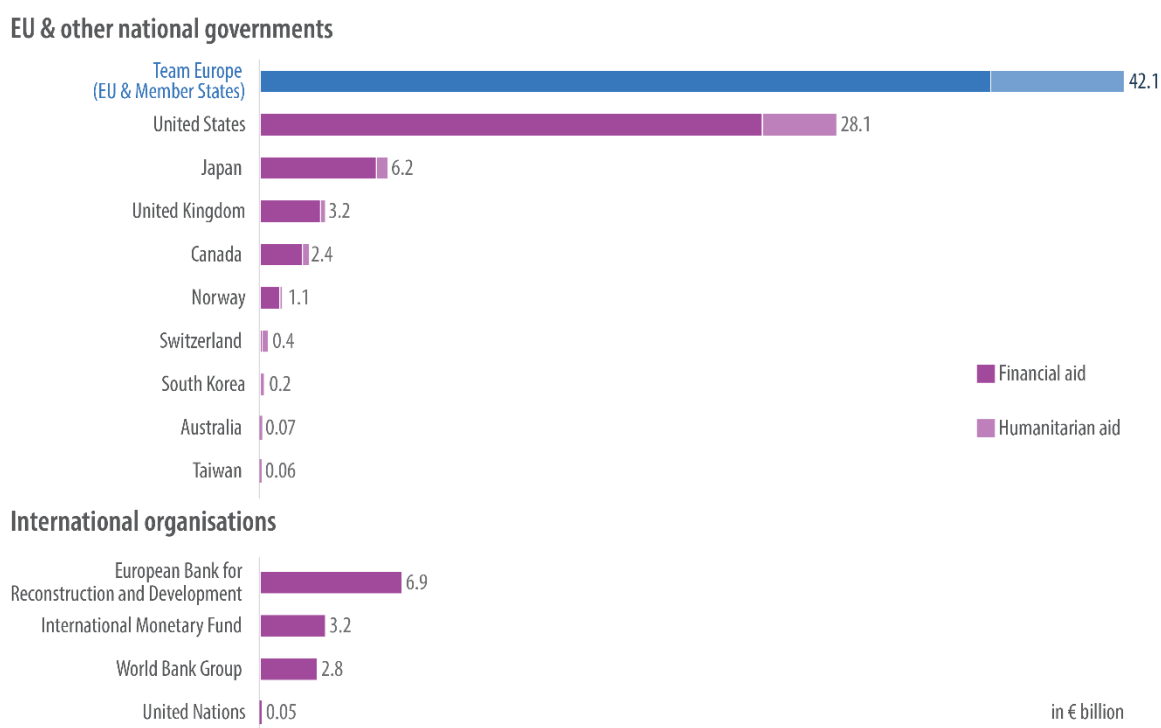
The largest part of the €72 billion committed by the EU and its Member States for support to Ukraine and Ukrainian refugees consists of 'macro-financial assistance' (MFA), drawn from Heading 6 of the EU budget. The MFA totals €25.2 billion since the start of Russia's full-scale invasion and consists of highly concessional loans that cover Ukraine's immediate funding needs, such as for essential state functions and public services. Of that €25.2 billion, €7.2 billion was made available in 2022. The first exceptional MFA in 2022 is guaranteed up to 70% by the EU budget. For the following MFA in 2022, the Commission earmarked 9% of the total loan value as provisions, while an additional 61% is guaranteed bilaterally by the Member States.

¹ [Proposal for a Regulation of the European Parliament and of the Council on establishing the Ukraine Facility](#), COM(2023) 338 final, 20.6.2023.

For 2023, the EU made another €18 billion available under the macro-financial assistance plus (MFA+) programme.² The support provided under MFA+ is conditional upon progress and reforms in judicial independence, anti-corruption measures and the rule of law. The loans to Ukraine under the MFA+ programme will be guaranteed through the headroom of the EU's 2021-2027 multiannual financial framework (MFF). The headroom is the difference between the own resources ceiling, the maximum amount of resources that the Commission can ask Member States to contribute in a given year, and the funds that the Commission actually needs to cover the expenses envisaged by the budget, i.e. the payments ceiling.

In addition to that direct EU support to the Ukrainian government, the Member States have made use of €17 billion of EU funds to help Ukrainian refugees who have fled to the EU. That €17 billion comprises unspent cohesion funds from the 2014-2020 period, such as React-EU, the European Regional Development Fund and the European Social Fund. That help for refugees has been complemented by another €288 million and €400 million under respectively Heading 2b, Resilience and Values, and Heading 4, Migration and Border Management.³ An additional €1.25 billion has been made available to the EU agricultural and maritime sector affected by the war.

Figure 2 – Financial and humanitarian aid for Ukraine (figures pre-2023 Ukraine Recovery Conference in London and excluding military aid)



Data source: Kiel Institute, Ukraine Support Tracker, February 2023.

Compared on a global level and based on numbers provided by the Ukraine Support Tracker of the Kiel Institute for the World Economy published on 24 February 2023, the EU and its Member States, together as 'Team Europe', are the largest contributor of financial and humanitarian aid for Ukraine,

² M. Pari, [Macro-financial assistance for Ukraine in 2023](#), November 2022.

³ S. Mazur, [Amending budget No 3/2022: Financing reception costs of people fleeing Ukraine](#), June 2022.

with approximately €42 billion.⁴ The United States follows with €28 billion, the European Bank for Reconstruction and Development (EBRD) with €6.9 billion, and Japan with €6.2 billion. At the Ukraine Recovery Conference in London, all major donors announced additional support for Ukraine. The Kiel Institute has announced it will be releasing new figures on 6 July 2023.

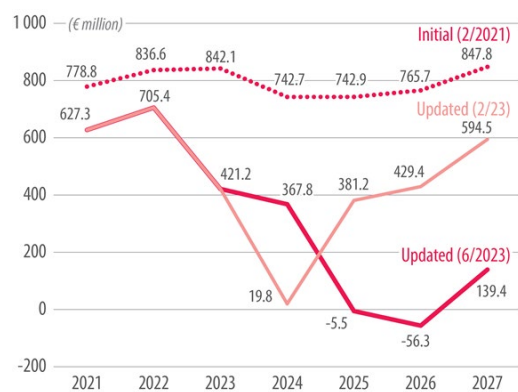
Team Europe is playing a pivotal role in providing support for Ukraine, the Ukrainian people and all those affected by the war.

2. Consequences for the EU budget

2.1. The EU's 2021-2027 long-term budget

The EU's long-term budget, the multiannual financial framework (MFF), defines the maximum amount the EU can spend for a period of 7 years. The current MFF covers the period from 2021 to 2027. The 2021-2027 MFF was mainly negotiated in 2020, and finally adopted by the Council on 17 December 2020. The 2021-2027 MFF has an overall volume of €1 074.3 billion, which grows to an impressive €1.8 trillion if the extraordinary recovery instrument, Next Generation EU (NGEU), is added.

Figure 3 – Overall margins 2021-2027, (commitments, € million)



Data source: Financial programming [2/2021](#),

While those amounts seem enormous at first sight, the available funds in the EU's long-term budget were tight from the start. In case of unforeseen events, the necessary funds can only be provided either by redeployments between different programmes or by consuming the margins under the ceilings of the different headings or through the mobilisation of special instruments.

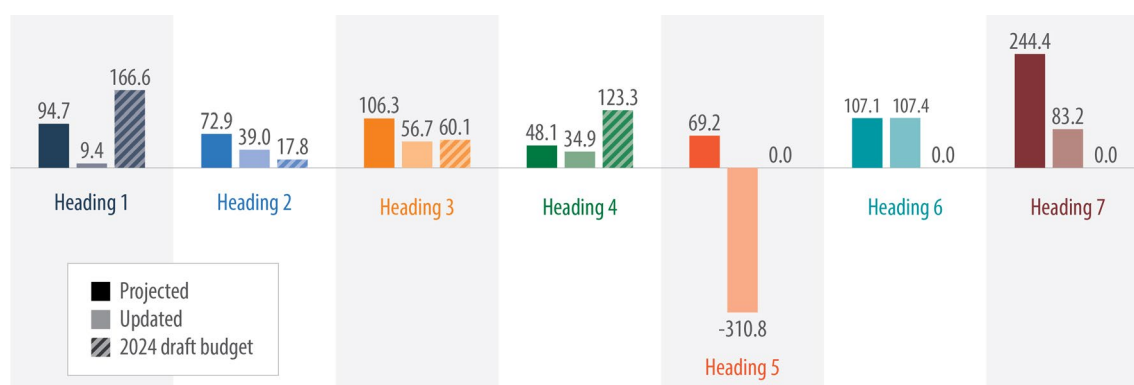
In February 2021, the overall margin available for the remaining years was projected at €5.5 billion. Already at the start of the new MFF, margins and special instruments had to be used to counter the adverse economic consequences of the COVID-19 pandemic, which proved more persistent than initially hoped. The situation changed dramatically for the worse after the beginning of Russia's full-

scale invasion of Ukraine in February 2022. From the first day of the war, the EU has stood united in its unwavering support for Ukraine. The EU and its Member States, together as 'Team Europe', have delivered financial, military and humanitarian support to Ukraine on an unprecedented scale. To date, around €50 billion from the EU budget has been committed to support Ukraine, Ukrainian refugees and sectors of the EU economy affected by the war (see Figure 1). As a result, large parts of the margins have been used up. According to the Commission's most recent – June 2023 – estimates, the overall margin stands at €2.7 billion (51 % less than in February 2021).⁵

⁴ K. Bushnell, A. Frank, L. Franz, I. Kharitonov, S. Schramm and C. Trebesch, [Ukraine Support Tracker](#), Kiel Institute for the World Economy, 24.2.2023.

⁵ EPRS calculations based on [Commission Statement of Estimates for the Financial Year 2024](#), June 2023.

Figure 4 – Development of margins for the 2024 budget year (commitments, € million)



Data source: Financial programming [2/2021](#), [2/2023](#) and [SEC\(2023\)250](#).

Looking at the [2024 draft budget](#) proposed by the Commission under the title, 'Enabling Europe to address its priorities', there is no margin left under the ceilings of three headings. The full mobilisation of the flexibility instruments was required to cover existing financing needs and new initiatives that had already been agreed earlier.

Any larger amounts for supporting Ukraine financially are conspicuously missing from the 2024 draft budget. There are just not enough funds available in the current, 2021-2027 MFF.⁶

2.2. MFF mid-term revision and new separate 'Ukraine Facility'

In summer 2023, the mobilisation of existing programmes under all headings of the MFF and the reshuffling of unused funds for Ukraine have reached their limit. The MFF has no room left for manoeuvre, the margins and flexibility instruments are largely depleted.

Consequently, the European Commission adopted a proposal for a mid-term revision of the MFF on 20 June 2023.⁷ The European Parliament had already repeatedly called for such a revision.⁸

The main feature of the MFF's mid-term revision is the creation of a new separate 'Ukraine Facility'.⁹ That facility is intended to provide financing for Ukraine from 2024 to 2027.

⁶ K. Kowald and M. Pari, [Long-term EU budget for 2021 to 2027: State of play](#), EPRS, European Parliament, June 2023.

⁷ Communication from the Commission, [Mid-term revision of the multiannual financial framework 2021-2027](#), COM(2023) 336 final, 20.6.2023.

⁸ [European Parliament resolution of 15 December 2022 on upscaling the 2021-2027 multiannual financial framework: a resilient EU budget fit for new challenges](#) (2022/2046(INI)), P9_TA(2022)0450; [European Parliament resolution of 10 May 2023 on the impact on the 2024 EU budget of increasing European Union Recovery Instrument borrowing costs](#) (2023/2037(BUI)), P9_TA(2023)0194.

⁹ [Proposal for a Regulation of the European Parliament and of the Council on establishing the Ukraine Facility](#), COM(2023) 338 final, 20.6.2023.

Table 1 – Ukraine Facility: Up to €50 billion for 2024 to 2027 (1/3 grants and 2/3 loans)

Pillar I €39 bn	Pillar II €8 bn, to mobilise €17.8 bn	Pillar III €3 bn
Grants and loans to support the Ukrainian state, conditional on reforms. The Ukrainian government will have to prepare a 'Ukraine plan' for recovery and reconstruction.	Ukraine investment framework for recovery	Assistance and capacity building programmes such as for reform expertise, for central, regional and municipal government and civil society comparable to the Instrument for Pre-Accession Assistance
Enable Ukraine to deliver uninterrupted public services	Mobilise investments in Ukraine's private sector by providing guarantees and blended finance (de-risking)	Support Ukrainian government and civil society in achieving EU acquis and standards

The Ukraine Facility is organised around three pillars:

- **Pillar I** – Financial support for the Ukrainian state in the form of grants and loans conditional upon public administration reform, good governance, the rule of law, anti-corruption efforts and sound financial management. Ukraine will need to prepare a 'Ukraine plan' for the recovery, reconstruction and modernisation of the country and the reforms it intends to undertake as part of its EU accession process. The plan, which needs to be endorsed by the EU, will include conditionalities such as macro-financial stability, budget oversight, public finance management, sectoral and structural reforms aimed at lifting the growth potential of the Ukrainian economy, and a concrete timeline for disbursements.
- **Pillar II** – A specific 'Ukraine investment framework' including the creation of a specific 'Ukraine guarantee' of up to €8.9 billion, distinct from the existing External Action Guarantee (EAG) under the EFSD+; this guarantee will initially be provisioned at a rate of 70 % and be subject to the conclusion of guarantee agreements; the aim is to attract and mobilise public and private investments by providing guarantees and blended finance (a mix of loans and EU grants) for Ukraine's recovery and reconstruction.
- **Pillar III** – Technical assistance and other supporting measures, including mobilisation of expertise on reforms, support for municipalities, civil society, and other forms of bilateral assistance normally available for pre-accession countries under the Instrument for Pre-Accession (IPA) and interest rate subsidies for Ukraine.

The overall amount envisaged for the new facility is up to €50 billion for the 2024-2027 period, initially with €17 billion in grants and €33 billion in loans. A new special instrument, the 'Ukraine Reserve', is designed to provide at least €2.5 billion as an annual indicative amount for grants as well as any provisioning for guarantees. That new instrument necessitates an amendment of the MFF Regulation. The loans will be guaranteed through the MFF headroom, similar to the current financing under the MFA+.

From January 2024, the new 'Ukraine Facility' will replace existing bilateral support for Ukraine, such as MFA+ and the NDICI bilateral allocation. However, military and humanitarian aid, and support for

EU Member States providing protection for Ukrainian refugees fleeing the war, will continue to be funded via other existing instruments.

The new facility allows for a maximum of flexibility with the actual distribution between loans, grants and guarantees determined annually. This is necessary on account of the uncertainties of the ongoing war. According to the Commission proposal, the commitment and payment appropriations of the 'Ukraine Reserve' would have to be mobilised by the European Parliament and the Council annually in the context of the budgetary procedure, ensuring full involvement and control of Parliament as budgetary authority.

The facility would be open to other donors, such as Member States, partner countries and international organisations. Given the scale of the destruction from Russia's war of aggression, it is clear that supporting Ukraine's recovery will require a broad international effort. The facility should create the possibility to use confiscated Russian assets for Ukraine's recovery and reconstruction via the facility.

As a next step, the Commission proposal for the Ukraine Facility and the accompanying budget proposals will be debated and will have to be adopted by the European Parliament and the Council. The aim is to have the facility operational by the end of 2023 to ensure seamless financial support for Ukraine from 1 January 2024. That is certainly an ambitious timetable, which can be achieved if all EU institutions work with the same commitment. However, in the event of delays, the Commission plans 'bridge financing' of €1.5 billion per month for Ukraine for up to 3 months.

The European Parliament has repeatedly demanded a Ukraine recovery package 'to be supported by credible and adequate EU funding' in line with the needs of Ukraine.¹⁰ Therefore, broad support for the proposal seems certain in Parliament. The Council is generally sceptical about higher EU spending and particularly opposed to increasing the EU's long-term budget in a mid-term revision. A unanimous vote is necessary to adopt a modification of the MFF Regulation. In a first promising sign, fiscally conservative Member States such as Germany and the Netherlands have confirmed their support for additional resources for Ukraine, in spite of reticence towards an increase in the MFF for other purposes.¹¹

Additionally, European Commission Executive Vice-President Valdis Dombrovskis signed agreements worth over €800 million with the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) on the margins of the 2023 Ukraine Recovery Conference in London, to mobilise private investment for the recovery of Ukraine's economy.¹² The agreements, which are supported by the European Fund for Sustainable Development Plus, the financing arm of NDICI-Global Europe, are intended to mobilise the private sector for Ukraine's recovery and reconstruction. The objective of the agreements is to mobilise funds for war insurance and provide guarantees that de-risk finance for the Ukrainian private sector, including small enterprises, agri-business and women-led companies.

¹⁰ [European Parliament resolution of 15 December 2022 on upscaling the 2021-2027 multiannual financial framework: a resilient EU budget fit for new challenges](#) (2022/2046(INI)), P9_TA(2022)0450, paragraphs 4, 46, 47; [European Parliament resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community](#) (2023/2739(RSP)), P9_TA(2023)0247, paragraph 12.

¹¹ S. Fleming and I. Johnston, [EU states resist Brussels over €66bn budget top-up](#), *Financial Times*, 20.6.2023.

¹² European Commission, [Ukraine Recovery Conference: President von der Leyen and Executive Vice-President Dombrovskis showcase strong EU support with new €50 billion Ukraine Facility and €800 million in agreements to mobilise investment for Ukraine's recovery](#), 21.6.2023.

3. Consequences for EU budgetary control and principles for a successful recovery

The EU has already spent enormous amounts to support Ukraine. In June 2023, the European Commission estimated overall Team Europe financial support for Ukraine at €72 billion (see Table 1). On 20 June 2023, the EU Commission adopted a new separate financing instrument for up to €50 billion, with the objective of supporting Ukraine for the next 4 years, from 2024 to 2027.

That makes it essential to activate the highest possible level of parliamentary scrutiny and budgetary control, in order to ensure that EU spending is used for the agreed purposes, that the agreed targets are actually achieved and that all applicable rules are complied with.

The Commission has underlined that the new 'Ukraine Facility' and its implementation would be equipped with a robust framework for transparency, audit and control, to ensure the protection of EU financial interests.¹³ First, the audit and control systems of the Ukrainian state would be substantially enhanced. Second, the Commission would be able to carry out checks on projects at any moment of the project cycle. Third, a dedicated independent audit board would assist the Commission by reporting regularly on the achievement of the objectives of the facility, and by issuing recommendations to Ukraine.

Proportionate reporting requirements would be required of recipients of Union funding implemented under the second and third pillars of the facility. Ukraine would be obliged to publish data on persons and entities receiving amounts of funding exceeding the equivalent of €500 000 for the implementation of reforms and investments specified in the Ukraine plan.

3.1. A democratic Ukraine as a beacon of freedom and prosperity on Europe's eastern flank

It is not only in the interests of Ukraine but also in the interests of the European Union and all other international donors to make Ukraine's recovery a success. The sooner Ukraine becomes a vibrant democracy with a stable rule of law environment and a functioning social market economy, the sooner Ukraine will be able to finance its further recovery from its own tax income and via private sector investment. The sooner a stable, peaceful and prosperous society develops in Ukraine, the sooner Ukraine will grow into an anchor of stability for the whole region and for Europe as a whole.

A democratic Ukraine, based on the rule of law and with a successful market economy could act as a beacon of freedom and prosperity and thus as a successful catalyst for democratic change in the whole of eastern Europe, including in Russia, Belarus and other former Soviet republics. That is something Vladimir Putin fears most, and might have well been one of the main reasons for starting the full-scale invasion of Ukraine.¹⁴ In his speech at the 2023 Ukraine Recovery Conference, Volodymyr Zelenskyy stated that 'Russia's bosses' were very afraid of democracy, because democracy paved the way for the rule of law, for getting rid of corruption and for the key principle that every person mattered.¹⁵ The president pointed out: 'The more rule of law we have, the more

¹³ European Commission, [Ukraine: Commission proposes to set up a dedicated Facility to support Ukraine's recovery, reconstruction and modernisation](#), 20.6.2023.

¹⁴ S. Ploky, *The Russo-Ukrainian War: The Return of History*, May 2023, p. 36.

¹⁵ [When we build Ukraine, we will build freedom – online speech by President Volodymyr Zelenskyy at the Ukraine Recovery Conference in London](#), 20.6.2023.

law will work here on the eastern flank of Europe. And the more transparent Ukraine is, the uglier any corruption model will look in Russia'.

3.2. World Bank assesses cost of Ukraine's reconstruction at €383 billion

A joint assessment released by the government of Ukraine, the World Bank Group, the European Commission, and the United Nations in March 2023, estimates the cost of reconstruction and recovery in Ukraine at US\$411 billion (equivalent to €383 billion).¹⁶ That estimate only covers a 1-year period from the start of the invasion to the first anniversary of the war on 24 February 2023. Continued Russian attacks including the bombing of Ukraine's energy infrastructure and the disastrous destruction of the Kakhovka dam, have driven that figure up further. The longer the war lasts, the more the costs will increase.

However, the costs would not have to be paid in a single year but would be spread out over 10 or more years. Only part of the overall costs would have to be financed by the public sector. The faster Ukraine wins the war and the faster the initial recovery materialises, the higher the part that can and will be financed by private investments.

3.3. Principles for a successful recovery

Based on Parliament's most recent resolutions, the European Commission's most recent proposals and assessments and ideas raised in public debate, the following eight principles for a successful recovery emerge.

3.3.1. Security for Ukraine – and its investors

Security is key for the whole recovery process and in particular for private investment. All recovery efforts depend on Ukraine having the capacity to liberate its temporarily occupied territory from the Russian invaders and defend itself against future attacks by Russia.

Investors will neither invest in a war zone nor in a country that is in a 'frozen conflict' with Russia or that is constantly threatened by a renewed attack of its aggressive and nationalistic neighbour. Therefore, a stable and convincing security guarantee for Ukraine is essential. When Romania and Bulgaria became members of NATO in 2004 well before their accession to the EU in 2007, private investments already surged. The European Parliament warned in a resolution of 15 June 2023 against leaving Ukraine languishing in a security grey area that would invite Russia to continue or restart hostilities in the longer run.¹⁷ Full NATO membership would be the best security guarantee Ukraine could get. In its resolution of 15 June 2023, the European Parliament asks NATO to admit Ukraine as a member. Even if all current NATO members unanimously agreed to offer full NATO membership to Ukraine, there would be a process, which takes time, time Ukraine does not have to start its recovery. Therefore, the European Parliament has called for the EU, its Member States, NATO allies and like-minded partners 'to work closely with Ukraine to develop a temporary framework for security guarantees, to be implemented immediately after the war, until full NATO membership is achieved'. On top of that, it is essential to continue to provide Ukraine with military support beyond

¹⁶ World Bank, [Ukraine Rapid Damage and Needs Assessment: February 2022 - February 2023](#), March 2023.

¹⁷ [European Parliament resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community](#) (2023/2739(RSP)), P9_TA(2023)0247, paragraph 22.

the end of the current war. Ukraine needs a military that is strong enough to protect Ukraine's sovereignty, its territorial integrity and its independence.

'War insurance' for private investors

In addition to political and military security, private investors need the option to insure their businesses. As a rule, insurance is a prerequisite for a loan. Private insurance generally excludes losses arising from war. At the Ukraine Recovery Conference, UK Prime Minister Rishi Sunak announced a 'London Conference Framework for War Risk Insurance', that would define mechanisms to insure against political and war-related risks. At the Conference, the European Commission expressed interest in supporting an innovative pilot scheme for war insurance by the EBRD through its guarantee funding. The 'Ukraine Guarantee Facility' of the EBRD aims to facilitate access to war insurance for Ukrainian and international companies.¹⁸ Those guarantees will protect future private investments and insure international shipping and trade against war-risks.

The German Marshall Fund defends the idea that only private investors from states that are supporting Ukraine financially during the war should profit from any war insurance or other de-risking mechanisms.¹⁹ That seems to be a justified incentive for states to participate in supporting Ukraine.

3.3.2. Coordination of international donors and democratic scrutiny

It is essential to mobilise broad international support for Ukraine's victory and recovery. An institutional framework is needed to ensure that the selection and management of projects has Ukrainian ownership, but is organised in ways that give donors transparency and assurances that money is well spent.

The multi-agency Donor Coordination Platform for Ukraine²⁰ was established following a decision taken by G7 leaders on 12 December 2022.²¹ The first meeting of the Platform's Steering Committee took place on 26 January 2023. The establishment of the Platform has been widely greeted as a decisive step forward in the coordination of international aid to Ukraine. The objective of the Platform is to agree on common standards, avoid unnecessary overlap, increase efficiency through an optimal flow of information, increase effectiveness through a concentration of resources and focus jointly on accountability and transparency.

According to one view, it is a challenge for the platform is that it lacks a clear leader.²² The Platform's Steering Committee has three co-chairs, one from Ukraine, one from the US and one from the EU. The co-chairs are Ukraine's Deputy Prime Minister for Restoration of Ukraine and Minister for Communities, Territories and Infrastructure Development Oleksandr Kubrakov, US Deputy National Security Advisor for International Economics Mike Pyle and European Commission Director-General Gert Jan Koopman, of the Directorate-General for European Neighbourhood Policy and Enlargement Negotiations. The three co-chairs collaborate closely with the G7 Presidency and governments, as well as partners from international financial institutions, notably the European

¹⁸ European Commission, [Ukraine Recovery Conference: President von der Leyen and Executive Vice-President Dombrovskis showcase strong EU support with new €50 billion Ukraine Facility and €800 million in agreements to mobilise investment for Ukraine's recovery](#), 21.6.2023.

¹⁹ Norman L. Eisen, Alina Inayeh, Jacob Kirkegaard, Thomas Kleine-Brockhoff, Josh Rudolph, and Bruce Stokes, [Toward a Marshall Plan for Ukraine, New Ideas and Recommendations](#), June 2023, p.13.

²⁰ [Website](#) of the Donor Coordination Platform for Ukraine.

²¹ [G7 Leaders' Statement](#), 12 December 2022.

²² N. L. Eisen, A. Inayeh, J. Kirkegaard, T. Kleine-Brockhoff, J. Rudolph and B. Stokes, [Toward a Marshall Plan for Ukraine, New Ideas and Recommendations](#), June 2023, p. 46.

Investment Bank, the European Bank for Reconstruction and Development, the International Monetary Fund and the World Bank, to coordinate efforts to address Ukraine's financing needs.

The idea of the Platform should be to be as inclusive as possible and go beyond the G7.²³ Ukraine will need huge resources for immediate recovery and long-term reconstruction. The more donors participate, the more resources for those tasks will be available.

The Platform has a secretariat in Brussels and Kyiv. While the secretariat is small to avoid unnecessary bureaucracy and keep agility, it will need additional resources for planning and analytical as well as coordination work in the near future.

The first in person meeting of the Steering Committee of the Platform took place in the margins of the Ukraine Recovery Conference 2023 in London.²⁴ The Platform has an ambitious work programme to ensure that Ukraine's urgent priority needs for 2023 are met and matched by donor commitments. At the Ukraine Recovery Conference, Ukraine's Prime Minister Denys Shmyhal stated that €6.5 billion out of a total of €14 billion needed for the immediate recovery in 2023 was still needed.²⁵

Parliamentary scrutiny of the Platform is crucial given the amounts at stake

So far, the Platform does not envisage any involvement of parliaments in its steering committee. In its communication on Ukraine relief and reconstruction of 18 May 2022²⁶ the European Commission had offered observer status to the European and Ukrainian Parliaments. Given the scale of the financial implications for the EU budget, involving the European Parliament is essential on the basis of its prerogatives as budgetary authority. The European Parliament, together with the Verkhovna Rada of Ukraine and the US Congress, as the parliaments of the three co-chairing entities of the Platform, should have a prominent role in its work in order to ensure full parliamentary scrutiny, democratic oversight, transparency and accountability. This is even more important in light of Ukraine's EU accession process.

An important issue is the coordination of the recovery inside Ukraine. The objective should be to have a clear structure with clear competences and one digital pipeline, to ensure efficient and transparent implementation at national and regional levels. At the moment, a number of actors are active in the field: In addition to an extremely powerful presidential administration, Ukraine has a Deputy Prime Minister for Restoration, a National Council for the Recovery of Ukraine from the Consequences of the War with 24 working groups,²⁷ and a newly created State Agency for Reconstruction and Development of Infrastructure within the Ministry of Infrastructure.

Importance of involving regional and local authorities

The European Parliament has repeatedly underlined the importance of involving local authorities in the decision-making process on the recovery, and of fully restoring the successful decentralisation

²³ Norman L. Eisen, Alina Inayeh, Jacob Kirkegaard, Thomas Kleine-Brockhoff, Josh Rudolph, and Bruce Stokes, [Toward a Marshall Plan for Ukraine. New Ideas and Recommendations](#), June 2023, p. 46.

²⁴ The White House, [Readout of Fourth Meeting of the Ukraine Donor Coordination Platform Steering Committee](#), 21.6.2023.

²⁵ [Statement by Prime Minister of Ukraine Denys Shmyhal at the Ukraine Recovery Conference in London](#), 20.6.2023.

²⁶ European Commission communication on [Ukraine relief and reconstruction](#), 18 May 2022.

²⁷ [Working Groups of the National Council for the Recovery of Ukraine from the Consequences of the War](#).

reform after the end of the war in order to launch a successful recovery for Ukraine.²⁸ Local authorities should play a 'prominent role' in decision-making about reconstruction projects.

A study commissioned by the European Parliament suggests a number of solutions that can promote cooperation between cities and regions and describes their potential to strengthen the capacities of self-government and to support civil society in Ukraine.²⁹

Knowing the limited capacity of Ukraine's civil service, increasing its capacity will be a key success factor of the whole recovery process. The EBRD is already running a programme supporting the government in its reform efforts on the path to EU integration and is working closely with the European Commission for example through a programme of 200 local consultants embedded in key parts of the Ukrainian administration.

3.3.3. Build back better: Green, digital and social

The 'build back better' principle is enshrined as a key principle in Ukraine's national recovery plan adopted by the National Recovery Council in June 2022.³⁰ For the EU and the international donor community too, it is important to organise the recovery in a green, digital and inclusive way.

On 15 June 2023, the European Parliament underlined that damaged infrastructure and industrial capacity should be 'rebuilt in accordance with the "build back better" principle and the goals of the European Green Deal, with the aim of promoting a carbon-free and digital economy, and transforming Ukraine into a modern European welfare state and market economy'. Parliament added that Ukraine's reconstruction and recovery process 'must be firmly based on the principles of social fairness and inclusion, gender equality, sustainability and green transformation'.³¹

At the Ukraine Recovery Conference in London, Zelenskyy positioned Ukraine as a future key supplier of green energy and green hydrogen to Europe.³² He underlined that the green transformation of energy would logically stimulate the development of industries such as green metallurgy and green fertilisers. In addition, Ukraine had significant reserves of critical raw materials for the modern economy, such as lithium.

3.3.4. Strong anti-corruption procedures and institutions, and judicial reform

At the EU-Ukraine summit in Kyiv on 3 February 2023, both parties 'reaffirmed that comprehensive and consistent implementation of judicial reforms, in line with the recommendations of the Venice Commission, including the reform of the Constitutional Court and the selection procedure of politically independent and qualified constitutional judges', remained vital for strengthening Ukraine's resilience and for progress with the enlargement process.³³ From the point of view of the European Parliament, Ukraine should 'prioritise strengthening the rule of law, continuing the reform

²⁸ [European Parliament resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community](#) (2023/2739(RSP)), P9_TA(2023)0247, paragraphs 15 and 19. [European Parliament resolution of 16 February 2023 on one year of Russia's invasion and war of aggression against Ukraine](#) (2023/2558(RSP)), P9_TA(2023)0056, paragraph 17.

²⁹ M. Smetkowski, A. Kniazevych, A. Olechnicka, J. Orchowska and E. Przekop-Wisniewska, [Research for the REGI committee – Cooperation between EU cities and regions with their Ukrainian partners](#), European Parliament, Policy Department for Structural and Cohesion Policies, March 2023.

³⁰ National Recovery Council, [Ukraine's National Recovery Plan](#), June 2022.

³¹ [European Parliament resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community](#) (2023/2739(RSP)), P9_TA(2023)0247, paragraphs 11 and 16.

³² [When we build Ukraine, we will build freedom – online speech by President Volodymyr Zelenskyy at the Ukraine Recovery Conference in London](#), 20.6.2023

³³ [Joint statement following the 24th EU-Ukraine Summit](#), 3.2.2023.

of its judiciary and fighting corruption, as progress in these areas will determine not only its progress on the European path but also the success of its reconstruction and recovery'.³⁴

Experts agree that Ukraine has made significant progress in judicial reform in recent years. Ukraine's anti-corruption institutions, created after the Maidan revolution, have shown strong resilience even throughout the war. However, more needs to be done.

On 22 June 2023, EU Neighbourhood and Enlargement Commissioner Olivér Várhelyi delivered an oral report on the progress of Ukraine towards EU accession to the General Affairs Council in Stockholm.³⁵ A much broader, deeper analysis of Ukraine's progress has been announced by the Commission for October.

Ukraine has successfully addressed the reform of two key judicial governance bodies – Further progress is needed in other areas

According to the oral report of Commissioner Várhelyi, Ukraine has successfully addressed the reform of two key judicial governance bodies, the High Council of Justice and High Qualification Commission of Judges, which are up and running after a merit-based selection process.

Regarding the Constitutional Court reform, the EU certifies 'good progress'. Ukraine adopted the necessary law at first reading. The second reading in the Verkhovna Rada is still pending. For the Commission it is of utmost importance that the internationally nominated members will have a decisive role as proposed by the government and in line with the Venice Commission recommendations.

According to the Commission, Ukraine has made 'some progress' regarding anti-corruption and 'de-oligarchisation'. Regarding anti-corruption measures, Ukraine has appointed new heads of the Specialised Anti-Corruption Prosecutor Office (SAPO) and the National Anti-Corruption Bureau of Ukraine (NABU). As a next step, the Commission expects a credible track record of prosecutions and convictions and further systemic measures, in particular restoring the e-asset declaration system and implementing the adopted state anti-corruption programme.

Regarding de-oligarchisation, the Commission notes Ukraine's action plan to reduce the influence of oligarchs, which includes systemic reforms in key areas. The Commission is looking forward to the plan's implementation together with the Venice Commission recommendations on the anti-oligarch law. The Commission expects in particular the reversal of the suspension of the implementation of the anti-oligarch law during the war and the prioritisation of systemic laws and measures against oligarchs.

³⁴ [European Parliament resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community](#) (2023/2739(RSP)), P9_TA(2023)0247, paragraph 8.

³⁵ [Press remarks by Neighbourhood and Enlargement Commissioner Olivér Várhelyi, following the informal General Affairs Council](#), 22.6.2023.

3.3.5. Privatisation and private investment

In the past, candidate countries for EU accession have had, on average, 56 % of EU per capita income on the eve of their accessions. Ukraine's 2021 per capita income was 13 % of the EU average.³⁶ EU membership will be neither possible nor advisable if Ukraine's economy remains so dramatically under-developed. Independent of the recovery from the war, Ukraine urgently needs more investment, higher productivity and more growth.

One challenge for Ukraine is its large number of inefficient and too often corrupt state-owned enterprises.³⁷ At the central level alone, Ukraine owns 3 500 enterprises, which account for about one tenth of gross domestic product (GDP) and about 18 % of employment.³⁸ With the exception of Naftogaz, state-owned enterprises make hardly any profits. Ukraine should identify a small number of enterprises that are of strategic relevance and should therefore be kept in public hands, and organise the privatisation of all others.

The Ukrainian government engaged BlackRock's consulting arm, JPMorgan and McKinsey to help set up a reconstruction bank under the name of the 'Ukraine Development Fund', the objective being to define and coordinate public seed capital for rebuilding projects that can attract hundreds of billions of euros in private investment.³⁹

A Ukraine Business Compact was launched successfully at 2023 Ukraine Recovery Conference in London.⁴⁰ This constitutes a major signal of intent from world leading businesses, with more than 400 companies, from 38 countries, with a combined annual revenue of over US\$1.6 trillion, pledging to back Ukraine's recovery and reconstruction in the wake of Russia's illegal invasion. That shows that there is appetite among businesses to invest in Ukraine.

One major challenge for businesses in Ukraine currently is to retain or recruit enough workers. The EBRD is supporting a project to help companies in Ukraine to retain and regain their workforce. The total workforce in Ukraine has shrunk in the last year from 18 million to 11 million people. The programme helps to re-integrate war veterans, refugees and internally displaced persons – many of them women.

3.3.6. EU accession and partial access to the EU internal market

The EU has eliminated custom tariffs under the deep and comprehensive free trade area (DCFTA), and has included Ukraine in the EU's single market programme to support its small and medium-sized enterprises. A revised priority action plan for enhanced implementation of the EU-Ukraine DCFTA in 2023-2024 has been adopted to accelerate Ukraine's integration in the single market.⁴¹ On 23 June 2022, the European Council granted Ukraine candidate status.

For all the countries that have joined the EU in the last two decades, access to the single market has been the main driver of economic growth. Countries that are already on a promising EU path but that are not yet close to full EU accession should already be able to benefit from the single market.

³⁶ N. L. Eisen, A. Inayeh, J. Kirkegaard, T. Kleine-Brockhoff, J. Rudolph, and B. Stokes, [Toward a Marshall Plan for Ukraine. New Ideas and Recommendations](#), June 2023, p.10.

³⁷ A. Åslund and A. Kubilius, [Reconstruction, Reform, and EU Accession for Ukraine](#), Frivärld – Stockholm Free World Forum, March 2023, p. 110.

³⁸ [Commission Opinion on Ukraine's application for membership of the European Union](#), COM(2022) 407 final, 17.6.2022, p.14.

³⁹ Brooke Masters, [BlackRock and JPMorgan help set up Ukraine reconstruction bank](#), *Financial Times*, 19 June 2023.

⁴⁰ Ukraine Recovery Conference, [Ukraine Business Compact](#).

⁴¹ [Joint statement following the 24th EU-Ukraine Summit](#), 3.2.2023.

The German Marshall Fund also sees permanent access to the EU and US markets as key for future investment and growth in Ukraine.⁴² The European Parliament fully supports 'Ukraine's gradual integration into the EU single market and sectoral programmes' and calls for 'innovative, complementary and flexible interaction between the ongoing work on the implementation of the Association Agreement in force and the accession negotiation process'.⁴³ Parliament wants Ukrainian citizens to be able to reap the benefits of accession throughout the process and not only upon its completion.⁴⁴

In a speech at the Globsec 2023 Bratislava Forum, Commission President Ursula von der Leyen stated: 'For example, the Western Balkans could join our digital single market in areas such as e-commerce or cybersecurity. We could facilitate our trade in goods and payments. I want our single market to be a driver of change, not only for countries that have already joined the family but also for those that are still on their way'. That partial access to the single market could and should also be applied to Ukraine.

3.3.7. Involving civil society

Ukraine's civil society can and should play an essential role in making Ukraine's recovery a success. Civil society involvement can increase the number of good ideas, it can make a difference in anti-corruption monitoring, it can play a beneficial role in social services given to refugees, internally displaced persons and veterans. Ukrainian civil society is clear about its ambition to be better integrated in the reconstruction process from the very beginning, and is not satisfied with the current level of engagement.⁴⁵

Since 2014, a number of significant reforms in Ukraine have been driven by the active participation of civil society. In certain cases, such as healthcare reform and public procurement reform, experts judge the role of Ukrainian civil society as a decisive success factor.⁴⁶

In July 2022, a new and powerful coalition of Ukrainian organisations and international partners – RISE Ukraine – was launched at the Lugano Ukraine Recovery Conference.⁴⁷ The coalition unites more than 20 both Ukrainian and international organisations working on open government and anticorruption reform. RISE has unveiled 10 principles for Ukraine's reconstruction and modernisation. One of the models for a successful open government reform is Prozorro, a fully digital and widely praised e-procurement system. RISE Ukraine developed Prozorro in close cooperation with the Ukrainian government, which has since taken it over.

DREAM: Digital restoration ecosystem for accountable management

As a next project, RISE Ukraine, together with the Ukrainian government, plans to build on that open government and open data-driven approach to track and support the whole chain of assessing needs, planning, procuring and delivering public works to boost the reconstruction. The name of

⁴² Norman L. Eisen, Alina Inayeh, Jacob Kirkegaard, Thomas Kleine-Brockhoff, Josh Rudolph, and Bruce Stokes, [Toward a Marshall Plan for Ukraine, New Ideas and Recommendations](#), June 2023, p. 17.

⁴³ [European Parliament resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community](#) (2023/2739(RSP)), P9_TA(2023)0247, paragraph 7.

⁴⁴ [European Parliament resolution of 16 February 2023 on one year of Russia's invasion and war of aggression against Ukraine](#) (2023/2558(RSP)), P9_TA(2023)0056, paragraph 15.

⁴⁵ Orysia Lutsevych, [Giving civil society a stake in Ukraine's recovery - How government, citizens and donors can work together to embed trust in reconstruction](#), Chatham House, Russia and Eurasia Programme, Ukraine Forum, June 2023.

⁴⁶ Viktor Nestulia, [How to build trust for Ukraine's recovery](#), Kyiv Independent, 30.3.2023.

⁴⁷ [New coalition RISE Ukraine launches plan for transparent and efficient reconstruction](#), 5.7.2022.

the new unified electronic restoration management ecosystem is DREAM: digital restoration ecosystem for accountable management.⁴⁸ DREAM is a state digital ecosystem that will provide a single digital route for all reconstruction projects. It will collect all project data online, display it in the form of convenient tables, graphs, and charts, and ensure open data publication applying the global open contracting data standard.

The work of RISE and other Ukrainian civil society organisations is exemplary in lending much needed added value to the recovery process.

3.3.8. Mobilising confiscated Russian assets

For representatives and citizens of Ukraine it is an essential question of justice that Russia as the perpetrator of the invasion must be forced to participate in the costs of Ukraine's recovery. Mobilising Russian assets would provide additional funds for Ukraine's recovery and relieve the burden on taxpayers in the EU and in other donor countries.

On 17 March 2022, less than 1 month after the start of Russia's full-scale invasion, the G7 established a task force on Russian elites, proxies, and oligarchs (REPO) with the objective of taking all available legal steps to find, restrain, freeze, seize, and, where appropriate, confiscate or forfeit the assets of those individuals and entities that have had sanctions imposed in connection with Russia's premeditated, unjust, and unprovoked invasion of Ukraine.⁴⁹ One year later, in March 2023, the members of the REPO task force have successfully blocked or frozen more than US\$58 billion-worth of assets of Russians under sanctions, tracked such Russian assets across the globe, and heavily restricted the access of Russians subject to sanctions to the international financial system.⁵⁰

The European Parliament strongly supports the idea of confiscating Russian public assets for the purpose of financing Ukraine's reconstruction and compensating the victims of Russia's aggression. On 15 June 2023, it reiterated its call on the EU institutions and Member States to establish a legal basis for that purpose.⁵¹ In the same resolution, it underlined its conviction that, 'once the war ends, Russia must be obliged to pay the reparations imposed on it to ensure that it makes a substantial contribution to the reconstruction of Ukraine'.

Commission President Ursula von der Leyen announced at the Ukraine Recovery Conference in London on 21 June 2023 that, before the summer break the Commission would come up with a proposal to use confiscated Russian assets. That Russia as the perpetrator had to be held accountable and participate appropriately in the financing of Ukraine's recovery was voiced in London by a number of other speakers including US Secretary of State Antony Blinken and Latvian Prime Minister Krisjanis Karins.

However, the EU ad hoc working party on the use of frozen and immobilised assets to support Ukraine's reconstruction, which looked at the use of €200 billion in Russian reserves frozen under the EU's sanctions, so far sees 'no credible legal avenue allowing for the confiscation of frozen or immobilized assets on the sole basis of these assets being under EU restrictive measures'.⁵² The

⁴⁸ Rise Ukraine, [The Ministry for Restoration and the RISE Ukraine Coalition presented the communication platform of the digital ecosystem for reconstruction management DREAM](#).

⁴⁹ [Ministerial Joint Statement on the Russian Elites, Proxies, and Oligarchs Task Force by the European Commission, the United States, Australia, Canada, France, Germany, Italy, Japan and the United Kingdom](#), 17.3.2022.

⁵⁰ [Joint Statement from the REPO Task Force](#), 9.3.2023.

⁵¹ [European Parliament resolution of 15 June 2023 on the sustainable reconstruction and integration of Ukraine into the Euro-Atlantic community](#) (2023/2739(RSP)), P9_TA(2023)0247, paragraph 10.

⁵² W. Shaw, S. Bodoni and A. Nardelli, EU Sees Hurdles to Seizing €200 Billion in Russian Assets, Bloomberg, 21.6.23.

paper identified significant legal obstacles to temporarily managing the liquid assets of Russia's central bank and transferring the profits to Ukraine. Instead, the paper prefers a 'windfall contribution'. Firms with Russian holdings that are generating large profits could be required to transfer a substantial amount to the EU. That would not impact the legal situation of the assets.

The European Central Bank (ECB) has supposedly warned the EU Commission against confiscating frozen Russian assets. According to a *Financial Times* report, the ECB fears such a move could dent confidence in the euro as a global currency and hurt financial stability.⁵³ Even the EU just using the interest rate proceeds from immobilised Russian assets could encourage central banks of third countries that hold large reserves of money to turn their back on the euro, argues the ECB. That risk would be particularly high if the EU acted unilaterally without other G7 countries.

Can Russian state assets be seized and transferred to Ukraine immediately?

A paper distributed by Covington & Burling on behalf of SCM Consulting Limited argues that bolder action than that suggested by the G7 REPO task force can and should be taken against Russia.⁵⁴ Immobilised Russian state assets already under the control of G7 members and like-minded countries should be seized and transferred to Ukraine immediately, to send a clear message to Russia to stop the war and to provide relief to Ukraine now. The paper argues that this would be fully consistent with international law; the seizure and transfer of the Russian state assets can be justified either as a collective counter-measure to encourage Russia to comply with its obligations or as a legitimate exercise of the right of collective self-defence.

A report authored by the New Lines Institute similarly makes the case for a multilateral asset transfer based on international law as an 'effective and legally sound framework for reparations, including compensation, for Russia's invasion of Ukraine'.⁵⁵ The report recommends that each state identify and transfer all Russian state assets within its jurisdiction to a central bank escrow account, trust, or analogous arrangement for subsequent disposition in accordance with international agreements. The approach recommended by the report relies on the established international law of state counter-measures, which provides that states may take counter-measures in response to the internationally wrongful act of another state, intended to induce the aggressor state to comply – voluntarily or involuntarily – with its legal obligations, such as making reparations for wrongful acts. According to the authors of this report, counter-measures are, by definition, state acts that would ordinarily be unlawful, and thus would attract international legal liability, if not taken in response to a wrongful act by the aggressor state in order to achieve a specific objective - namely, in this case, compensating Ukraine.

⁵³ S. Fleming, M. Arnold and P. Stafford, [ECB warns Brussels against windfall levy on frozen Russian assets](#), *Financial Times*, 16 June 2023.

⁵⁴ Covington & Burling on behalf of SCM Consulting Limited, *Justification for Seizure of Russian State Assets Under International Law*.

⁵⁵ New Lines Institute, [Multilateral Asset Transfer: A Proposal for Ensuring Reparations for Ukraine](#), June 2023.

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This paper provides detailed insight on the use of the EU budget to support Ukraine and Ukrainian refugees. It explains the recent Commission proposal for a new 'Ukraine Facility' to finance the country and its recovery in the years 2024 to 2027. Furthermore, the paper addresses the challenges of ensuring full parliamentary scrutiny, democratic oversight, and effective budgetary control of the enormous amounts spent on Ukraine's recovery. On top of that, the paper presents principles for a successful recovery.

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