

EU ECONOMIC ASSISTANCE TO UKRAINE AFTER FULL-SCALE RUSSIAN INVASION: SCOPE, IMPACT AND WAYS FOR IMPROVEMENT



Ilko Kucheriv
Democratic Initiatives
Charitable Foundation

PRAGUE
**CIVIL
SOCIETY**
CENTRE

Yaroslav ZHALILO | Dr. Sc., Viktoria KOLOSOVA | Dr. Sc., Antonina DESHKO

Kyiv | Ukraine

National Institute for Strategic Studies

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Executive summary

Since the beginning of Russian aggression, the EU significantly increased its support to Ukraine, having mobilized macro-financial assistance, grant budget support, urgent assistance, direct non-budget aid responding to crisis, and humanitarian aid for the promotion of general economic, social and financial stability of Ukraine. Given the adopted decision of Ukraine's candidate to EU accession status, this assistance should be considered not only as the mean of operative support, but as the investment, pushing the structural changes.

Macro-financial assistance provision to Ukraine allowed to ensure the stable and full-pledged financing of primordial social and humanitarian expenditures of the state budget, contributed to the proper functioning of bodies of public administration at the beginning of full-scale war and their readjustment to wartime needs.

The general conditions, outlined in the Memoranda of Understanding, created the additional frames for moderating the financial policy of the Government. The appropriate role has been played by Ukraine's obligations to build anti-corruption mechanisms, envisaged by the Memoranda.

The loan agreement on granting to Ukraine the macro-financial assistance in the amount of EUR 18 bln will determine the mainstream in 2023. Meanwhile, the effectiveness of this assistance should be enforced by promoting effectiveness and transparency of budget spending and further engraving of anti-corruption capacity, better performance of budget planning and higher effectiveness of budget spending.

In the case of desired developments in the course of the war, in 2024 we should expect the significant increase of the share of targeted programs of budget and non-budget economic assistance to economic recovery processes. Strengthening the institutional capacity to obtain and effectively use the funds will allow to diversify the scope of assistance recipients, and to unload the budget system.

Enhancement of strategic approaches to the EU policy concerning Ukraine is an important complementary component of European support to Ukraine. Expanding resource capacity to provide economic assistance to Ukraine and strengthening the targeting of funds allocation can be enabled by Ukrainian actors' involvement into the actual and prospective European programs. In general, the EU economic assistance to Ukraine in 2023-2024 should play the decisive role in rapid EU integration of Ukraine.

EU ECONOMIC ASSISTANCE TO UKRAINE SINCE 24 FEBRUARY

Since the beginning of Russian aggression, the EU significantly increased its support to Ukraine through macro-financial assistance, grant budget support, urgent assistance, direct non-budget aid responding to crisis, and humanitarian aid for the promotion of general economic, social and financial stability of Ukraine.

The main part of the EU assistance is represented by the support of financing the state budget of Ukraine.

As Ministry of Finance of Ukraine reported¹, for the period from 24 February, 2022 to 15 March, 2023, the total amount of EU assistance for this purpose was equivalent to USD 11,2 bln. From the total 93,8 % were provided as loans. According to the loan agreements, all payments in debts servicing and interest, besides the first loan agreement for EUR 1,2 bln (its cost is less than 1 % per year), should be paid for the expense of EU, and the terms of loans, provided in 2022, account for 15 and 10 years (for the first agreement) and 25 years (for further ones).

On March 3, 2022, Ukraine and the EU signed the first Memorandum of Understanding (MoU). According to this agreement, in the period from 11 March to 20 May, for Ukraine were disbursed totally EUR 1,2 bln of Macro-Financial Assistance (MFA)^{2,3}. Totally, in 2022, three MoU have been signed for an overall sum of EUR 7,2 bln. The assistance was disbursed in different sizes of instalments virtually each month (Fig. 1).

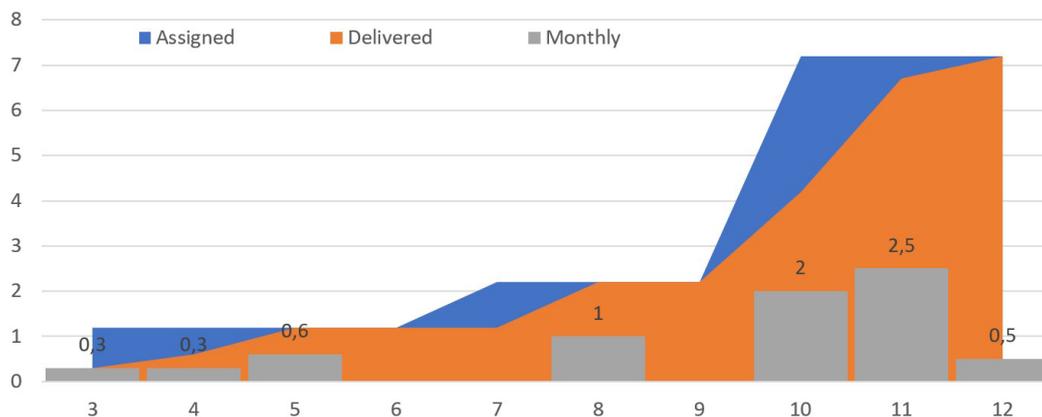


Fig. 1. EU macrofinancial aid to Ukraine in 2022, cumulative and by instalments, EUR bln

¹ Ministry of Finance of Ukraine (2023) "Ukraine's State Budget Financing Since the Beginning of the Full-scale War", mof.gov.ua, 29 March, https://mof.gov.ua/en/news/ukraines_state_budget_financing_since_the_beginning_of_the_full-scale_war-3435

² The Diplomatic Service of the European Union (2022) "EU disburses €600 million in Macro-Financial Assistance to Ukraine", Delegation of the European Union to Ukraine, 23 May, https://www.eeas.europa.eu/delegations/ukraine/eu-disburses-%E2%82%AC600-million-macro-financial-assistance-ukraine_en?s=232

³ Ministry of Finance of Ukraine (2022) "Ukraine Received EUR 600 Million in EU Macro-Financial Assistance", mof.gov.ua, 22 May, https://www.mof.gov.ua/en/news/ukraina_otrimala_600 mln_ievro_makrofinansovoi_dopomogi_ies-3450

The Ministry of Finance of Ukraine reported⁴ that MFA from the EU accounted for UAH 256,4 bln, equivalent to 10,2 % of total expenditures of the state budget in March-December of 2022.

On 16 January, 2023, Ukraine and the EU signed the fourth MoU to providing support to Ukraine for 2023 to offer EUR 18 bln of the Macro-Financial Assistance⁵. As a result, the state budget of Ukraine will receive these funds in 2023 on the conditions agreed by the parties⁶. The loan repayment period will be 35 years, interest and other debt service payments to be paid by the EU countries⁷.

The EU included a set of policy conditions which included measures on macro-economic stability, structural reforms and good governance, rule of law and energy policy. The key of obligations in the field of economic policy are:

- implementation of the roadmap of gradual withdrawal from temporary emergency measures, undertaken after the war began in the tax policy;
- improvement of bankruptcy regimes of legal entities (corporate bankruptcy) and insolvency of individuals;
- verification by the National Bank of Ukraine (NBU) insurers' compliance with prudential requirements;
- deregulation of licensing and the system of permits, in particular – in the construction sector;
- bringing the public procurement system into compliance with the EU acquis to ensure transparent and competitive procurement;
- promotion of the Customs Service administration reform;
- strengthening the responsibility for the large-scale smuggling;
- reforming the administrative proceedings;
- preparation of a comprehensive plan of the law enforcement reform;
- improvement of the legislative basis for prevention of the money laundering and financing terrorism ;
- implementation of the best global practices in energy efficiency and circular economy for newly erected and reconstructed buildings;
- preparation of the Action plan for the recovery of destroyed energy infrastructure of Ukraine in connection with Green deal goals⁸.

4 Ministry of Finance of Ukraine (2023) "Information from the Ministry of Finance of Ukraine on the implementation of the State Budget of Ukraine for 2022", mof.gov.ua, https://mof.gov.ua/storage/files/Інформація_щодо_викон_ДБУ_за_2022_рік_01_03_2023.doc [in Ukrainian]

5 Memorandum of Understanding between the European Union as Lender and Ukraine as Borrower (2022), An official website of the European Union, https://economy-finance.ec.europa.eu/system/files/2023-01/Memorandum%20of%20Understanding_EU-UA.pdf

6 Ministry of Finance of Ukraine (2023) "Ukraine and the EU Signed Memorandum and Loan Agreement on EUR 18 billion Macro-Financial Assistance", mof.gov.ua, 16 January, https://mof.gov.ua/en/news/ukraina_ta_ies_pidpisali_memorandum_ta_kreditnu_ugodu_shchodo_otrimannia_makrofinansovoi_dopomogi_obsiagom_18_mlr_d_ievro-3799

7 Ministry of Finance of Ukraine (2023) "Ukraine Received EUR 3 billion of EU Macro-Financial Assistance", mof.gov.ua, 16 January, https://mof.gov.ua/en/news/ukraine_received_eur_3_billion_of_eu_macro-financial_assistance-3803

8 Ministry of Finance of Ukraine (2022) "The text of the Memorandum of Understanding with the EU within the framework of the new large-scale EU macro-financial assistance", mof.gov.ua, 20 January, https://www.mof.gov.ua/uk/news/tekst_memorandumu_pro_vzaiemorozuminnia_z_ies_v_ramkakh_novoi_masshtabnoi_makrofinansovoi_dopomogi_ies-3805

In addition, the EU provided support in the form of grants assistance. It helped to finance specific critically important public expenditures.

In particular, the European Commission (EC) on 21 March, 2022 accepted EUR 120 mln grant for Ukraine in the form of a **State and Resilience Building Contract** to support the Ukrainian Government in strengthening civilian crisis preparedness and management at the central and local levels⁹. Funds were transferred to finance the most urgent expenses of the state like guaranteed social protection of citizens, functioning of critical infrastructure, energy security, cyber security, the fight against disinformation, and the government's crisis communication vis-à-vis the general population¹⁰.

In September 2022, the EU disbursed to Ukraine the grant "Reducing vulnerability and increasing food security through support for the affected population and agricultural production in Ukraine" in the amount of EUR 500 mln, in December – additionally EUR 66 mln. This grant helped to finance housing and education for internally displaced persons (IDP) and returnees, and Ukraine's agriculture sector¹¹.

Aimed to support Ukraine in solving the specific problems, the EU institutions provided funding for the specific assistance programs. A project-based approach enabled adaptation of the content of assistance programs to the emerging challenges. Therefore, the emphasis of the programs shifted from the urgent recovery needs' support, strengthening energy resilience to support of recovery and revitalization of business activity, including Ukrainian businesses' access to the European markets.

From the total number of targeted assistance programs we have distinguished more than thirty programs of financial and non-financial aid, which costed more than EUR 1.5 mln each (smaller programs were not considered) with total allocation of about EUR 7 bln, adopted and mostly disbursed in 2022 – the first quarter of 2023.

Around EUR 1.9 bln was directed for recovery. It was assistance to help homeowners' associations to restore war-damaged residential buildings (International Financial Corporation (IFC) grants)¹², repair critical municipal infrastructure (Nordic Environment Finance Corporation (Nefco))¹³, and repair war-damaged schools¹⁴.

9 The Diplomatic Service of the European Union (2022) "EU disburses additional €300 million in emergency Macro-Financial Assistance to Ukraine and adopts €120 million in grant support", Delegation of the European Union to Ukraine, 21 March, https://www.eeas.europa.eu/node/113127_en?s=232

10 European Commission (2022) "EU disburses €120 million grant for Ukraine to support societal and state resilience", European Neighbourhood Policy and Enlargement Negotiations (DG NEAR), 8 April, https://neighbourhood-enlargement.ec.europa.eu/news/eu-disburses-eu120-million-grant-ukraine-support-societal-and-state-resilience-2022-04-08_en

11 The Diplomatic Service of the European Union (2022) "Solidarity with Ukraine: EU-Ukraine Association Council takes place, with new agreements further strengthening cooperation between the EU and Ukraine", Delegation of the European Union to Ukraine, 5 September, https://www.eeas.europa.eu/delegations/ukraine/solidarity-ukraine-eu-ukraine-association-council-takes-place-new-agreements_en?s=232

12 The Diplomatic Service of the European Union (2022) "New EU-IFC Grant Program to Help Restore Homes Damaged by War", Delegation of the European Union to Ukraine, 22 November, https://www.eeas.europa.eu/delegations/ukraine/new-eu-ifc-grant-program-help-restore-homes-damaged-war_en?s=232

13 The Diplomatic Service of the European Union (2022) "The EU provides EUR 50 million to repair critical infrastructure as part of Nefco's green recovery activities in Ukraine", Delegation of the European Union to Ukraine, 15 December, https://www.eeas.europa.eu/delegations/ukraine/eu-provides-eur-50-million-repair-critical-infrastructure-part-nefco%E2%80%99s-green_en?s=232

14 The Diplomatic Service of the European Union (2022) "EU and Ukraine sign €100 million for the rehabilitation of war-damaged schools", Delegation of the European Union to Ukraine, 16 December, https://www.eeas.europa.eu/delegations/ukraine/eu-and-ukraine-sign-%E2%82%AC100-million-rehabilitation-war-damaged-schools_en?s=232

EUR 1.59 bln of the loans, guaranteed by the EU budget, were provided under the **EIB Ukraine solidarity urgent response** to repair the most essential damaged infrastructure and resume critically important projects¹⁵. In the first weeks of full-scale war the immediate financial support package from EIB, accounted for EUR 668 mln, was directed for the purchases of food, healthcare and fuel for the citizens¹⁶. Since 28 February, 2022¹⁷ more than EUR 500 mln were allocated by the EC to urgent in-kind aid of IDP with food, water, healthcare, emergency shelter¹⁸.

The EIB also declared the opened credit line in EUR 4 bln for 2022 and 2023, aimed to help to cities and regions in the EU member countries to cover the urgent investment needs and help them to integrate the Ukrainian refugees.

The local self-government was one of the key beneficiaries of the mentioned assistance programs. For instance, the EU and IFC joined their forces with the Lviv City Council to help renovate municipal buildings for IDP. In general, IFC will channel up to EUR 25 mln of the EU funds in grants across municipalities, covering the costs of modernising accommodation for thousands of people¹⁹.

Another agreement between IFC and Ukraine's *Energy Efficiency Fund* will channel up to EUR 25 mln of the EU funds to help homeowners' associations restore war-damaged residential buildings that did not suffer structural damage. A EUR 5 mln pilot phase is being rolled out in Kyiv, Zhytomyr, Sumy, and Chernihiv, larger cities in northern and central Ukraine that have come under increased missiles' attacks²⁰.

15 The Diplomatic Service of the European Union (2022) "EIB Board, supported by the EU Commission, approves €1.59 billion of EU financial assistance for Ukraine", Delegation of the European Union to Ukraine, 25 July, https://www.eeas.europa.eu/delegations/ukraine/eib-board-supported-eu-commission-approves-%E2%82%AC159-billion-eu-financial-assistance_en?s=232

16 The Diplomatic Service of the European Union (2022) "First payments under EIB Ukraine Solidarity Urgent Response reach Ukraine as part of European Union immediate support to the country", Delegation of the European Union to Ukraine, 11 March, https://www.eeas.europa.eu/node/112658_en?s=232

17 The Diplomatic Service of the European Union (2022) "Ukraine: EU coordinating emergency assistance and steps up humanitarian aid", Delegation of the European Union to Ukraine, 28 February, https://www.eeas.europa.eu/node/111827_en?s=232

18 The Diplomatic Service of the European Union (2022) "Ukraine: EU announces additional €205 million in humanitarian aid as Commissioner Lenarčič visits Ukraine", Delegation of the European Union to Ukraine, 9 June, https://www.eeas.europa.eu/delegations/ukraine/ukraine-eu-announces-additional-%E2%82%AC205-million-humanitarian-aid-commissioner_en?s=232

19 The Diplomatic Service of the European Union (2022) "EU and IFC to provide €25 million in grants to help Ukrainian cities offer quality housing to internally displaced people", Delegation of the European Union to Ukraine, 05 October, https://www.eeas.europa.eu/delegations/ukraine/eu-and-ifc-provide-%E2%82%AC25-million-grants-help-ukrainian-cities-offer-quality_en?s=232

20 The Diplomatic Service of the European Union (2022) "New EU-IFC Grant Program to Help Restore Homes Damaged by War", Delegation of the European Union to Ukraine, 28 November, https://www.eeas.europa.eu/delegations/ukraine/new-eu-ifc-grant-program-help-restore-homes-damaged-war_en?s=232

Among other support programs are worth noting, in particular, the following:

- The project of **support the investigation capacities of the International Criminal Court (ICC)** with EUR 7.25 mln, which will help to scale up its capacity to respond to the ongoing investigations into war crimes committed by Russia in Ukraine²¹.
- The EC initiative to **support the Ukrainian innovation community**: distribute EUR 60,000 for each of the 200 Ukrainian deep tech start-ups and provide non-financial support like business advisory services and matchmaking. This will enhance the capacity of Ukrainian innovators to interact with the European innovation ecosystem, enter new markets and benefit from the European financing instruments²².
- The EUR 15.5 mln grant assistance to rural households, smallholder farmers and small-scale agricultural enterprises, funded by EU within Food and Agriculture Organization of the United Nations (FAO) framework. The project will focus on supporting producers in Lviv, Ivano-Frankivsk, Zakarpattia and parts of Chernivtsi regions with matching grants for on-farm and value chain-based investments coupled with extension and advisory support²³.
- Support to Ukraine in the amount of EUR 25 mln, for **de-mining of the liberated territories**²⁴.
- Announced EUR 7.5 mln for two calls under the joint title **“ReadyForEU”** to support the integration of Ukrainian SMEs in the Single Market²⁵.

Initial EU assistance, delivered to Ukraine since the beginning of the full-scale war, had diverse forms, complex goals, and design to support different beneficiaries. The official tranches, disbursed by the decisions of the EC, took the mayor part in the support. In the meantime, the list of key providers of the assistance, funded by EU, was supplemented by large international institutions, like Nefco, EIB, IFC, FAO. This enabled to improve the targeting of the assistance, given the institutional framework of these organization, in particular – on recovery and humanitarian goals. The gradual shifting of assistance emphasis to business-supportive projects in agriculture and innovations builds the background for the spread of development-oriented assistance in the nearest future.

21 The Diplomatic Service of the European Union (2022) “Russian war crimes in Ukraine: EU supports the International Criminal Court investigation with €7.25 million”, Delegation of the European Union to Ukraine, 08 June, https://www.eeas.europa.eu/delegations/ukraine/russian-war-crimes-ukraine-eu-supports-international-criminal-court_en?s=232

22 The Diplomatic Service of the European Union (2022) “EU sets up €20 million support for Ukrainian start-ups through European Innovation Council”, Delegation of the European Union to Ukraine, 09 June, https://www.eeas.europa.eu/delegations/ukraine/eu-sets-up-e2%82%AC20-million-support-ukrainian-start-ups-through-european-innovation_en?s=232

23 The Diplomatic Service of the European Union (2023) “EU-FAO partnership to ensure recovery and development of agricultural value chains”, Delegation of the European Union to Ukraine, 04 January, https://www.eeas.europa.eu/delegations/ukraine/eu-fao-partnership-ensure-recovery-and-development-agricultural-value-chains_en?s=232

24 The Diplomatic Service of the European Union (2023) “Ukraine: EU supports de-mining of liberated areas with additional €25 million programme”, Delegation of the European Union to Ukraine, 03 February, https://www.eeas.europa.eu/delegations/ukraine/ukraine-eu-supports-de-mining-liberated-areas-additional-e2%82%AC25-million-programme_en?s=232

25 The Diplomatic Service of the European Union (2023) “European Commission launches €7.5 million calls to support the integration of Ukrainian SMEs in the Single Market”, Delegation of the European Union to Ukraine, 28 February, https://www.eeas.europa.eu/delegations/ukraine/european-commission-launches-e2%82%AC75-million-calls-support-integration-ukrainian_en?s=232

EFFECTIVENESS OF THE EU ECONOMIC ASSISTANCE

Since the lion's share of the EU macro-economic assistance supported the state budget of Ukraine and did not envisage the specific targeting instruments, the assessment of its impact can have only indirect character. Such an approach to the budget assistance provision seems optimal in the conditions when it is difficult to foresee actual expenditures.

In 2022, the macro-financial assistance of the EU amounted to UAH 281.7 bln, which was equal to 11.2 % of the total budget spending in March-December of 2022. As seen at Figure 2, in certain months the MFA and grants from the EU played a significant role in enabling budget spending. Particularly, it ensured financing of primordial social and humanitarian expenditures of the state budget, first of all, the wages of employees of healthcare, educational and public management institutions, pensions payment, social aid programs' financing, support of low-income families, children with disabilities and disabled people since childhood, IDP.

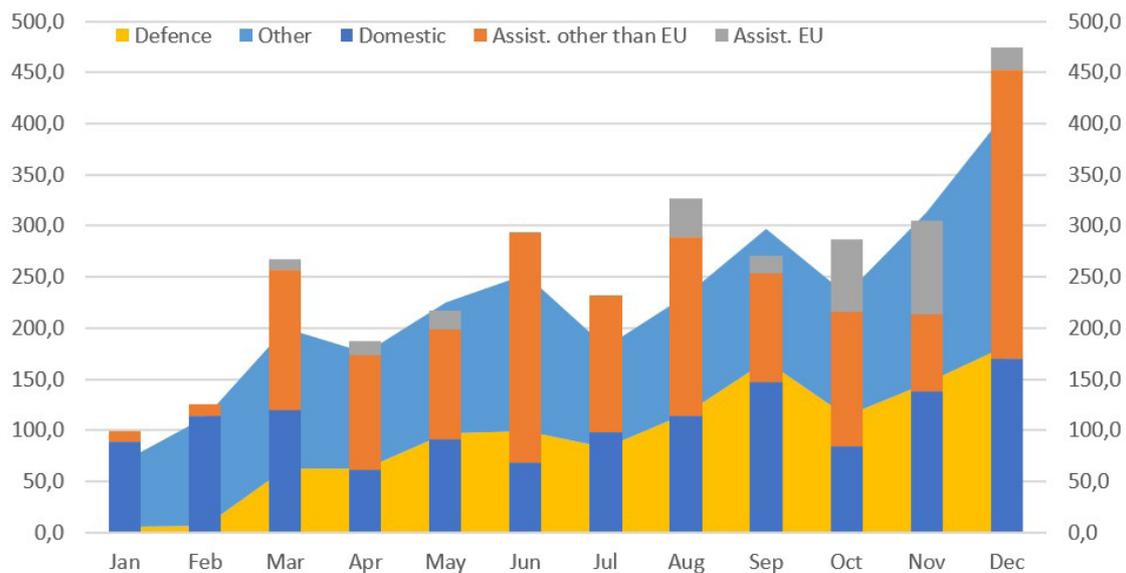


Fig. 2. Budget expenditures (defence+other) and revenues (domestic + foreign assistance (grants and loans)), monthly, UAH bln

The support of incomes of budget-dependent employees and recipients of social aid mitigated the first war shock and supported the aggregate domestic consumer demand, which, consequently, kept the business functioning. Moreover, EU loans reduced the urge of direct lending to the Government from National Bank of Ukraine and gave an opportunity to impede inflation and devaluation trends.

The general conditions, outlined in the MoU, moderated financial policy of the Ukrainian government. It required ensuring the transparency of the information about the budget revenues, spending, and allocation of funds by the main state institutions. As a result, the

government planned the state budget of 2023 based on the conservative forecast, taking into account the requirement of maximally possible consolidation in wartime conditions.

The EU conditions of macro-economic assistance strengthened the role of anti-corruption mechanisms and respective obligations of the Ukrainian government. Thanks to EU demands, in July 2022, Ukrainian authorities finished the process of appointment of the new head of the Special Anti-Corruption Prosecution Office²⁶. In the second half of 2022, the National Anti-Corruption Bureau opened 293 new investigations, submitted official warrants regarding 149 persons suspected in the corruption crimes, and directed 34 indictments to the court. The economic impact of the activity of NABU and SAP is estimated in almost UAH 1.9 bln²⁷.

According to the EU conditions, the government started renewal of the Supervisory Boards of state-owned banks and companies, the tenures of which expired in spring of 2022 but were prolonged due to the war. In October 2022, the Ministry of Finance announced a competition for the positions of independent Supervisory Board members of all four state-owned banks. As of January 2023, *Pryvatbank and Ukgazbank* had their supervisory boards renewed²⁸.

EU assistance played an important role in providing basic support to IDPs. According to the Ministry of Social Policy, more than 2.3 mln of IDPs received aid for subsistence, paid from the state budget at the total amount of UAH 52,8 bln (in average, UAH 23,000 per person)²⁹, that is equivalent to EUR 1.6 bln. Individual entrepreneurs and employees, who left the occupied or war-affected territories, had the opportunity to receive UAH 6,500 in the frame of the “*ePidtrymka*” (eSupport) program. The payout of UAH 6,500 was received by 4.7 mln persons (for the total sum of UAH 30.8 bln).

The EU assistance funds contributed to the **recovery of the critical infrastructure, destroyed by the Russian shelling.** In September 2022, one of the first two tranches provided by EIB (EUR 650 mln) was allocated to *Ukravtodor* (the Ukrainian road agency) and *Ukrzaliznytsia* (the Ukrainian railway) for the urgent repair and rebuilding of the road and rail transport infrastructure sector, the construction of modular bridges, to build shelters for energy infrastructure and substations. Also, EUR 50 mln was allocated to *Ukrenergo*, the Ukraine’s electricity transmission system operator, to strengthen its financial resilience and help it to maintain energy supplies for industry and households. EUR 350 mln was allocated to the Ministry for Communities, Territories and Infrastructure Development to cover heating

26 Lukashova, Sonya (2022) ““You want to hear me resist? I don’t.” Oleksandr Klymenko’s first major interview with the new head of SAP”, pravda.com.ua, 14 December, <https://www.pravda.com.ua/articles/2022/12/14/7380724/> [in Ukrainian]

27 National Anti-Corruption Bureau of Ukraine (2023) “293 investigations, 149 suspicions and 68 people on the dock: the results of the work of NABU and SAP in the II half of 2022”, nabu.gov.ua, 10 February, <https://nabu.gov.ua/novyny/293-rozsliduvannya-149-pidozr-ta-68-osib-na-lavi-pidsudnyh-rezultaty-roboty-nabu-i-sap-v-ii> [in Ukrainian]

28 Pay Space Magazine (2022) “Supervisory boards of all state-owned banks will be renewed in 2023 – Forbes”, psm7.com, 29 December, <https://psm7.com/uk/news/nablyudatelnye-sovety-vsex-gosudarstvennyx-bankov-v-2023-godu-budut-obnovleny-forbes.html> [in Ukrainian]

29 Ministry of Social Policy of Ukraine (2023) “Internally displaced persons”, msp.gov.ua, <https://www.msp.gov.ua/timeline/vnutrishno-peremishcheni-osobi.html> [in Ukrainian]

needs over the winter, restore municipal facilities and perform the thermal modernization of residential and public buildings³⁰.

The aid, delivered in the frame of the **EU Civil Protection Mechanism**, was highly important in the period of acute disruption of the electricity supply caused by the massive Russian missile attacks. In total, in 2022, the EU supplied around 800 power generators to Ukraine, including 40 new big generators from the *rescEU* reserve to power 30 hospitals across the country. In addition, the EC purchased up to 30 million energy saving light bulbs, aimed to free exchange for traditional lamps in the Ukrainian households³¹.

Thus, we can conclude the sufficient effectiveness of the EU assistance, provided in the first year of the full-scale war. Despite the specific background, complicated by war-generated risks, the assistance was quite successful in supporting important institutional shifts and brought significant relief in sensitive sectors.

30 European Investment Bank (2022) "EIB Group renews its commitment to Ukraine with emergency and ongoing support and a new donation from its philanthropic arm", eib.org, 14 December, <https://www.eib.org/en/press/all/2022-537-eib-group-renews-its-commitment-to-ukraine-with-emergency-and-ongoing-support-and-a-new-donation-from-its-philanthropic-arm>

31 The Diplomatic Service of the European Union (2022) "Standing with the Ukrainian people: EU delivers further energy support for the winter", Delegation of the European Union to Ukraine, 13 December, https://www.eeas.europa.eu/delegations/ukraine/standing-ukrainian-people-eu-delivers-further-energy-support-winter_en?s=232

RECOMMENDATIONS ON THE EU ECONOMIC ASSISTANCE TO UKRAINE IN 2023-2024

The loan agreement on granting to Ukraine the MFA in the amount of EUR 18 bln will determine the mainstream of the EU assistance in 2023. Meanwhile, strengthening the effectiveness of macro-financial assistance should be carried out with regard to the four key requirements.

- 1. Promoting effectiveness and transparency of budget spending and further enhancement of the anti-corruption institutional capabilities.** This is a crucial prerequisite for the new complementary programmes of technical assistance and direct grants designed for the reform of the public administration.
- 2. Clarifying the vision of special requirements, which should be complied in order to proceed with the MFA program.** Probably, these conditions should be reviewed, given the specific features of long-lasting war, the needs to implement the special transition periods, and to avoid the possible misunderstandings in formulations of the obligations of Ukraine.
- 3. Developing new programs of budget and non-budget economic assistance to economic recovery processes.** Strengthening the institutional capacity of potential beneficiaries – central and local governments, public sector companies, civic organizations, private businesses (SMEs), etc. to obtain and effectively use the funds will increase the number of recipients and to unload the budget system. Along with this, additional steps of the EU can motivate, mobilize and coordinate the potential assistance providers (involving national and local governments of EU countries; international organizations, working under the EU auspices; civic organizations; private contributors), increase its amount and the share of peer-to-peer contacts.
- 4. EU economic assistance to Ukraine in 2023-2024 should facilitate a process of negotiations and implementation of the sectoral action plans required by the candidate status and opening of the chapters of the EU accession package.**

Specific policy recommendations

- Demand improvement of the budget planning and effectiveness of spending

In the short-term perspective, the EU economic assistance must push for the better performance of budget planning and higher effectiveness of budget spending. With the support of the *EU Public Finance Management Support Programme for Ukraine* (EU4PFM) in 2022 important appliances and equipment were procured and delivered to public fiscal management institutions³², continued the work to promote the approximation of custom and tax legislation to the EU standards³³.

For this reason, technical and methodical assistance is desired at the following directions:

- resuming the provision and publication of reports and information on the budget spending by the main budget managers (excluding the spendings for the national security and defense);
- ensuring tighter interconnection between policies, budgeting and enhancement the system of key performance indicators for the state budget programs;
- preparing the proper financial and economic validation of the recovery projects;
- delivery of extended information about the reasons of improper fulfilment of the planned indicators by the budget managers;
- improvement of monitoring and verification of the social welfare payments;
- resuming the reviews of budget spendings and adjustment of reviews' methodology in accordance with the current conditions;
- preparing the appropriate mechanisms of recovery programmes financing, based on combining budget funds and international assistance;
- strengthening the institutional capacity of state financial control and auditing;
- preparing and implementation of the new IT system for budget planning and monitoring, as provided within the EU4PFM project;
- assessment of the system of public administration according to "Principles of public administration (SIGMA program);
- strengthening the capacities of State Tax Administration and State Custom Administration in the part of deepening the digitalization of tax and custom management, reinforcement of analytical support and risk-oriented fiscal control.

32 Domeikiene, Jurgita (2022) "Tackling Ukraine's public finance management challenges in times of war", eu4pfm.com.ua, <https://eu4pfm.com.ua/interviews/tackling-ukraines-public-finance-management-challenges-in-times-of-war/>

33 Domeikiene, Jurgita (2023) "How Ukraine succeeded in staying well on track with the implementation of PFM reforms, even in wartime", eu4pfm.com.ua, 16 March, <https://eu4pfm.com.ua/news/1703/#more-6891>

- Support development of participatory budgeting at the national and local levels.

This task requires implementation of legal and administrative norms the assistance provision for the Ministry of Finance, local self-governments, main budget funds administrators in:

- creation of appropriate legislative basis, institutional and governance mechanisms of implementation of the tools of participative budgeting into the activity of main budget funds administrators;
- dissemination best experience of participatory budgets' functioning, gained by local self-governance bodies;
- preparing and implementation of the mechanisms of local participatory budgets' support by the funds of the state budget;
- implementation of participatory budgets as the tools of prioritization of the social and residential infrastructure recovery.

- Include Ukraine into the EU economic development programs

The EU can open access to the **actual and prospective European programs** for the Ukrainian companies, institutions, and non-governmental organizations, and local self-government bodies.

a) **EU Recovery and Resilience Facility³⁴ (RRF)** of 2021, enforced in 2022 by *REPowerEU* track with the total budgets of bln 312,5 EUR (grants) and bln 360 EUR (loans). The projects, already initiated by EU countries within their National Recovery and Resilience Plans, could be scaled up with the participation Ukraine by:

- **Implementation of the pilot projects** in the sectors of energy resilience, "green" transition, digital transformations in Ukraine.
- **Implementation of technological and organizational solutions**, prepared by the European companies in the fields of RRF. The purchases of respective technologies and equipment can be part of the packages of European aid to Ukraine. Scaling the results of European companies, obtained within RRF, will increase the positive impact of this programme for the post-crisis revival of the EU economy.
- **Implementation of solutions, prepared by Ukrainian stakeholders**, in the fields of energy saving and efficiency, digital transformation, etc., in the appropriate national projects of European countries.

³⁴ European Commission (2022) "The Recovery and Resilience Facility", The Recovery and Resilience Facility, https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en

b) Neighbourhood, Development and International Cooperation instrument, *Interreg* cross-border cooperation programmes. These funds, initially planned for the cooperation with Russia and Belarus, were redirected to Ukraine and Moldova. The objectives of these programs are development of health services, reinforcement of institutional capacity of the public authorities, development of education and research projects, finance social inclusion schemes and job training programmes for refugees³⁵.

In December 2022, the European Commission adopted the four new *Interreg* programmes, designed for ten member states, Ukraine, and Moldova. The funds (EUR 533 mln) were allocated for cross-border and transnational cooperation, boost the green transition and support healthcare and education in 2021-2027³⁶.

To enter these cross-border cooperation programs Ukraine needs assistance to strengthen institutional capacity of the border regions and communities. One of the possible instruments is the European Grouping of Territorial Cooperation (EGTC) framework. In addition, Ukraine will benefit from the deeper cooperation with Hungary, Slovakia and Romania in the framework of the Carpathian Euroregion.

c) In the framework of the **Digital Europe Programme**, which has an overall budget of EUR 7,5 bln for the 2021-2027 period, Ukrainian companies, organizations and public administrations will be able to apply for funding and support for the projects in key capacity areas: supercomputing, artificial intelligence, advanced digital skills, and ensuring a wide use of digital technologies across the economy and society, including through Digital Innovation Hubs³⁷.

Given the significant experience gained in recent years in digitalization technologies, Ukraine still needs methodological assistance in the conversion of local development issues into the specific project, which should be solved at the basis of digitalization. It can open a way for the European grants, expanding active demand for the digital products.

d) The overall budget of the **Erasmus+programme** for 2023 has been revised upwards to a new total of EUR 4,43 bln, the highest annual financial envelope ever reached by the programme. The *Erasmus+* priorities are reinforced on inclusion, active citizenship and democratic participation, and on green and digital transitions³⁸. This program opens

35 The Diplomatic Service of the European Union (2022) "Ukraine: €26.2 million initially planned for Russia and Belarus will be transferred to strengthen cooperation with Ukraine and Moldova", *Delegation of the European Union to Ukraine*, 08 June, <https://www.eeas.europa.eu/delegations/ukraine/ukraine-%E2%82%AC262-million-initially-planned-russia-and-belarus-will-be-transferred-en?s=232>

36 The Diplomatic Service of the European Union (2022) EU Cohesion Policy: over €530 million for territorial cooperation including Ukraine and Moldova in 2021-2027", *Delegation of the European Union to Ukraine*, 06 December, <https://www.eeas.europa.eu/delegations/ukraine/eu-cohesion-policy-over-%E2%82%AC530-million-territorial-cooperation-including-ukraine-en?s=232>

37 The Diplomatic Service of the European Union (2022) "Solidarity with Ukraine: EU-Ukraine Association Council takes place, with new agreements further strengthening cooperation between the EU and Ukraine", *Delegation of the European Union to Ukraine*, 05 September, <https://www.eeas.europa.eu/delegations/ukraine/solidarity-ukraine-eu-ukraine-association-council-takes-place-new-agreements-en?s=232>

38 The Diplomatic Service of the European Union (2023) "Erasmus+ 2023 Annual Work Programme: Commission increases annual budget, with a focus on learners and staff from Ukraine", *Delegation of the European Union to Ukraine*, 13 March, <https://www.eeas.europa.eu/delegations/ukraine/erasmus-2023-annual-work-programme-commission-increases-annual-budget-focus-en?s=232>

opportunities for the implementation of projects aimed at enhancement of availability and quality of secondary and higher education in the recovery process; improvement of the professional training; monitoring and forecasting of the labour market in the sectoral and spatial dimensions.

e) Participation in the **EU4Health programme**, enabled by the Association Agreement since 2021. The Programme actions fall under four strands: disease prevention, crisis preparedness, health systems, and digital, with a cross-cutting focus on cancer³⁹. The health care reform in Ukraine can be supported by opportunities provided by the *EU4Health*, including comprehensive studies of the specific impact of the war on the health determinants and, respectively, the design of diseases prevention, curing and rehabilitation.

- Establish monitoring of the assistance needs and tasks

The EU assistance must address recovery bottlenecks and develop optimal solutions through networking with local self-government bodies and civil society organizations.

The idea of proper and balanced combination of assistance contents and timing has been already expressed as *“economic Ramstein”*⁴⁰. In order to get the primary information about up-to-date and forecasted requirements, the framework of losses’ rapid assessment should be implemented.

It can be done by expansion of peer-to-peer communications, based on intermunicipal contacts, previously established business partnerships, interactions of the civil and humanitarian organizations in the EU and Ukraine. This is the opportunity to unload the official EU assistance channels for dealing with large-scale complicated recovery projects.

Monitoring needs should include feedback mechanism, assessment of the performance based on the best norms and practices of the EU legislation. It is critical to engage **Ukrainian civil society organizations, independent think tanks and research centres for independent and comprehensive evaluation of how the Ukrainian government implements EU technical assistance programs.**

- Make assistance integral part of wider EU policy toward Ukraine

Enhancement of strategic approaches to the EU policy toward Ukraine is an important complementary component of European support to Ukraine. This does not imply the direct allocation of economic assistance but gives the opportunity to integrate it with Ukraine’s path to the full EU membership.

³⁹ The Diplomatic Service of the European Union (2022) “Ukraine: EU grants access to funding under the EU4Health programme”, Delegation of the European Union to Ukraine, 15 July, https://www.eeas.europa.eu/delegations/ukraine/ukraine-eu-grants-access-funding-under-eu4health-programme_en?s=232

⁴⁰ European Pravda, Ukrainska Pravda (2022) “Zelenskyy proposes “economic Ramstein”: 40 % of energy infrastructure damaged”, pravda.com.ua, 01 November, <https://www.pravda.com.ua/eng/news/2022/11/1/7374525/>

First, it is necessary to develop a shared vision of post-war Ukraine as a future member of the EU. This vision (as shared strategic principles and the roadmap of required changes) should be prepared by the European institutions inclusively with the national governments and communicated with the stakeholders. Ukraine should be “*put on the map of Europe*”⁴¹ – not as a passive recipient of assistance but as a prospective member of the European community.

In this view, **prospective joint priorities for the EU – Ukraine cooperation, which should be taken into account, are the following:**

- introduction of the of digital technologies into traditional industries during recovery (in particular – agriculture, transport, basic industrial sectors, energy production, etc.);
- involvement of European and Ukrainian small businesses into recovery projects and promoting of the European business models in Ukraine;
- widening cross-border cooperation and Europe-scaled intermunicipal cooperation – to reload the roles of local communities, subject to Globalization 4.0;
- ensuring food security, using Ukraine’s potential in agriculture and strengthening of its food processing industry;
- adaptation to the risks of the climate change, particularly, in agriculture and prevention of the natural disasters;
- solving the problem of energy security, energy sources’ diversification and increasing the share of renewable ones;
- energy-efficient modernization of public and residential buildings;
- implementation of environment-friendly technologies during recovery;
- digitalization promotion in administration, in particular - by implementation of smart cities and communities

Second. Prepare a unique multinational strategic plan to define a joint European policy concerning Ukraine’s post-war recovery. The Plan should include tasks for the European institutions, business and civic stakeholders in introducing the new member into the European Union:

- enlist the spheres and projects of mutual interest between businesses in Ukraine and the EU within recovery framework and beyond;
- implement efficient, transparent financial mechanisms for channelling economic assistance for recovery purposes;
- envisage the practical ways to strengthen the integration of Ukraine’s transport

⁴¹ Zhalilo, Yaroslav (2022) “Nine Steps Towards Post-War Europe”, Globsec.org, 01 December, <https://www.globsec.org/what-we-do/commentaries/nine-steps-towards-post-war-europe>

system with the European, implementing technical regulation, environmental requirements, improving logistics for the flows of commodities and people through the Ukraine-EU border;

- implement joint European policies in the Ukrainian strategic and political framework (in particular, agricultural, industrial, competitive, cohesion, transport, environmental, energy, health care, etc.);
- develop mechanisms of the technical aid for government institutions and local self-governance to enforce the institutional capacity for the implementation of European practices.

Prepare and provide Ukraine with a comprehensive roadmap for accession to the EU. This should improve the targeting of budget expenditures on the goals needed to proceed the accession way.

The roadmap should include:

- features of a fast-track accession procedure;
- provision and priorities of the pre-accession funds involvement;
- shaping reconstruction efforts as part of Ukraine's path to the EU;
- steps of institutional changes necessary to fulfil accession requirements.

**Commentary to "EU ECONOMIC
ASSISTANCE TO UKRAINE AFTER FULL-
SCALE RUSSIAN INVASION: SCOPE, IMPACT
AND WAYS FOR IMPROVEMENT"**

Pijus Krūminas, Associate Professor at ISM University of Management and Economics

Background

The destructive power of war creates different types of costs through direct destruction or indirect impacts through changed behaviours. For a country facing an invasion, maintaining the resilience of the society and the economy is key to defending the state, and support from other countries and international organisations can be an important factor in ensuring a successful war effort. In the case of Russia's war in Ukraine, the aggressor actively targets not only military but civilian facilities as well, whether we look at strikes on energy infrastructure, at the destruction of Kakhovka dam, or any of numerous other examples. The aim of these actions is to force a collapse of the economy and society through attrition not only of military but also of civilian population. Indeed, a report by the World Bank (2023) shows that in the first year since February 2022, USD 135b in damage has already been done to buildings and infrastructure, especially housing and transport⁴². The economic effects of war are also spilling over to Europe and globally. As estimated by Liadze et al. (2023), the costs of war are should especially affect Europe's economy (a loss of more than 1% of GDP in 2022)⁴³.

It is not surprising that the unprovoked aggression mobilized Ukraine's allies in providing both military and economic assistance. Within the first days since the start of invasion, EU proceeded to adopt decisions to enable provision of macro-financial assistance to Ukraine⁴⁴. While this aid is certainly focused to help the country to resist the invader successfully by reducing pressure on the state's budget, it can also provide an impetus for post-war reconstruction and broader change, bringing Ukraine closer to the EU.

The EU is among the agents providing the most economic assistance to Ukraine (and individual Member States are also among the largest supporters, especially, if assistance is measured by taking into account GDP). As the authors of the report rightly state, the support provided by the EU increased since February 2022 and is among the key external sources of macro-financial aid for the Ukrainian government. On the other hand, researchers at the Kiel Institute stress that compared to the wars of the past, assistance provided by Western donors until 15th January 2023 is lagging behind⁴⁵. Even if we look at economic assistance provided by the EU and compare it to other EU programmes, the difference is quite striking⁴⁶, which suggests room for improvement. Russia's invasion has enormous implications for Europe's future (by far not only in economic terms) and thus poses the question on whether current assistance could not be further increased, especially given the estimated needs. Per World Bank's projection, over ten years, reconstruction and recovery costs in Ukraine will

42 World Bank. Ukraine Rapid Damage and Needs Assessment: February 2022 - February 2023 (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099184503212328877/P1801740d1177f03c0ab180057556615497>

43 Liadze, I., Macchiarelli, C., Mortimer-Lee, P., & Sanchez Juanino, P. (2023). Economic costs of the Russia-Ukraine war. *The World Economy*, 46(4), 874-886.

44 For example, Decision (EU) 2022/313 of the European Parliament and of the Council of 24 February 2022 providing macro-financial assistance to Ukraine. PE/5/2022/REV/1

45 Trebesch, Christoph et al. (2023). The Ukraine Support Tracker: Which countries help Ukraine and how?, Kiel Working Paper, No. 2218, Kiel Institute for the World. Economy (IfW Kiel), Kiel

46 Ibid

reach USD 411m⁴⁷. Therefore, economic assistance must continue and help address both short- and long-term needs of the recipient country.

Effectiveness

As any policy, economic assistance provided by the EU to Ukraine has its goals. However, because of often lacking specific indicators attached to outputs, outcomes, and impacts associated with standard policy measures and an uncertain environment, it is difficult to define measurements for the effectiveness of economic assistance. The authors of the report also note this and address the issue well by discussing the key areas of EU's contribution. Given that the assistance went to budgetary expenditure in social and humanitarian areas and the overall shortage of funds faced by the country, it can be safely assumed that there is no substitution effect. Rather, provided assistance allowed the Ukrainian government to use more funds to meet the needs of fighting the war, keeping the society intact, and helping the economy to stay afloat. Thus, assistance is certainly making an impact, even if it is challenging to quantify it.

Over time, the assistance was tied to agreed conditions of changes that Ukraine has to implement. This can provide a mean to measure effectiveness if not directly of the macro-financial assistance then of broader changes enabled by it. While these conditions are not necessarily easy to meet, they would create a long-lasting change, also encouraging business involvement in post-war reconstruction. The authors of the report provide an example of the National Anti-Corruption Bureau's investigations in the second half of 2022 to illustrate the importance of these conditions tied to assistance. Indeed, this should send a positive signal both to current and to potential donors of positive changes taking place.

Leaving effectiveness aside, a question that should also be raised is that of efficiency, whether the assistance is used in a way that ensures that highest effectiveness, given the resources provided. Here, the governance of distributing the funds is of key importance. It is not only about the scale of assistance, but also about the capacity to absorb it in a way that ensures highest benefits. To enable it, a stronger participation of the local-level governance and other actors is needed, where those managing the aid are closer to the recipients. The recommendations provided in the report also stress it.

The way forward

There are numerous aspects to consider going forward and the authors of the report provide a well thought-through set of recommendations, that could strengthen the opportunities enabled by it. Here, I would like to discuss some of similar issues as well as something that is outside the original report, including based on the most recent developments.

⁴⁷ World Bank. Ukraine Rapid Damage and Needs Assessment: February 2022 - February 2023 (English). Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/099184503212328877/P1801740d1177f03c0ab180057556615497>

One of the main issues now is the **immediate support** and relief for the most pressing needs. Any increase introduced now would allow a more immediate reaction to the most pressing needs, also facilitating the burden on the Ukrainian government would enable devoting more attention to the counteroffensive. As the authors of the report notice, the EU should do more in terms of including Ukraine into its different programmes, as well as provide specific targeted assistance, both recommended by the authors of the report (e.g., regarding Erasmus+, RFF, and other programmes). There have been positive signs in that respect over the recent months. June 2023 saw Ukraine associated to the Connecting Europe Facility programme, Ukraine's participation in Horizon Europe should also be enhanced soon. Of course, more options are still available, but there is progress across the different funding areas. Closer cooperation would also help move towards closer integration and eventual acceptance of Ukraine into the EU, something that the EU also expects⁴⁸. Of course, setting a more specific action plan for this process which would also have a symbolic meaning.

EU's policy priorities of green and digital transitions, as well as societal resilience, can also be turned for the benefit of Ukraine. Investing in energy efficiency solutions (especially in the light of Russia's attacks on energy infrastructure) could help increase societal resilience in the long-term. Not that it is low, on the contrary, as demonstrated by the Ukrainian population, but any improvements can be helpful down the road. Furthermore, the terrible effects of the Kakhovka dam destruction shows the potential for the devastation of the environment, and the risks associated with the occupied Zaporizhzhia Nuclear Power Plant should induce the EU to plan for emergency funds (and quick reaction) in case of large-scale destructive events.

Here, also, the coordination of assistance among the different levels of governance plays an important role, which may need capacity building. The authors of the report note well that it is not only the governing bodies, but also civic organisations, public and private companies, etc. Capacity building, including through peer-to-peer learning from European actors could indeed be fruitful in ensuring efficient use of financial assistance.

This is where agreement on conditions tied to provision of macro-financial assistance should also help to increase the effectiveness of the support. For the Ukrainian side it is important to meet these conditions not only to unlock funds, but also to **facilitate changes in the economic and policy environment**. At the same time, the authors rightly note for the need of clarity in what is expected of Ukraine. The more abstract a condition is, the more difficult it is to take steps to satisfy, and the more likely are disagreements to emerge. It is worth noting that the President of the European Commission, Ursula von der Leyen, also stressed this in her speech at the Ukraine Recovery Conference 2023. Even more importantly, she positively assessed Ukraine's reform progress, in the context of the path towards EU membership⁴⁹.

48 European Commission (2023). Keynote speech by President von der Leyen at the Ukraine Recovery Conference 2023.

49 European Commission (2023). Keynote speech by President von der Leyen at the Ukraine Recovery Conference 2023.

Such broader changes are needed and policy/ regulatory changes agreed through Memorandum of Understanding should help to create an environment that is attractive to businesses. Given the scale of reconstruction that is and will be needed, private sector will play a key role in rebuilding the country, therefore, regulatory conditions should be satisfactory to ensure that uncertainties are reduced, while the processes are transparent, rapid, and easy to follow. This broadening of actors involved is also noted in the policy circles, as June 2023 call by the British Prime Minister Rishi Sunak to businesses and investors shows⁵⁰.

The long-term reconstruction needs also imply that the EU will have to take steps to **plan spending beyond the current time horizon**. This seems to be taking a clearer form with von der Leyen outlining the details Commission's proposal for the Ukraine Facility, which includes EUR 50b foreseen for medium-term support over the next four years⁵¹. This sends a positive signal about EU's willingness to commit to the Ukraine cause in the economic dimension. Yet, a question may be raised on the source of the funds. While support for Ukraine is strong, war fatigue may emerge over time and be used both by Russia for their misinformation campaigns and by local destructive groups to get a political platform. Therefore, the question of how the money will be raised is important. The Commission foresees three key means: EU budget grants, loans, and frozen Russian assets⁵². This latter point is especially important to send a message to those within and those outside the EU.

Finally, the current situation also provides an **opportunity for the EU** to reconsider its decision making rules. While some of the relevant examples relate more to military aid (for example in May 2023), Hungary did block the EUR 18b aid in December 2022 as a tool of bargaining with the EU. Veto power held by a single Member State in such an important case (discounting the suffering that economic assistance was intended to alleviate). Even though the block was withdrawn, it was done only after concessions, and it sends a clear signal to the EU that even in the cases where support for a decision is (nearly) unanimous, and where rapid agreement is needed, individual Member States can abuse the situation for their advantage.

50 Prime Minister's Office (2023). PM speech at the Ukraine Recovery Conference: 21 June 2023.

51 European Commission (2023). Keynote speech by President von der Leyen at the Ukraine Recovery Conference 2023.

52 European Commission (2023). Keynote speech by President von der Leyen at the Ukraine Recovery Conference 2023.

Anders Åslund, Adjunct professor, Georgetown University

Since Russia launched its full-scale war of aggression against Ukraine on February 24, 2022, the European Union has valiantly stepped up its support for Ukraine. This support has taken many forms. The most important is of course the military support. Also the humanitarian support is important, but this comment focuses on a third form of support, EU financial support to the Ukrainian state budget.

This comment is built on a report by Ukrainian analysts on this EU Economic Assistance to Ukraine, discussing its scope, impact and ways for improvement. It has been written by Yaroslav Zhalilo, Viktoria Kolosova, and Antonina Deshko of the National Institute for Strategic Studies in Kyiv. This comment will focus on three aspects of EU economic assistance to Ukraine: the EU financing to Ukraine, the aims and structure of this financing, and the conditions.

It was excellent that the EU reacted so fast after Russia's invasion of Ukraine in February 2022 and that it committed such a large amount of financing in May 2022. However, the EU financing must be related to the Ukrainian financial needs, to what other donors do, and it needs to be delivered as promised. In 2022, there were four serious problems with the EU financing, which this Ukrainian report, which is mainly forward-looking, politely omits.

First, in the spring of 2022, the Ukrainian government, with the support of the IMF, called for external budget financing of \$60-65 billion for the year as a whole or \$5 billion a month, since the war led to sharply decreasing tax revenues. At the end of 2022, however, it appeared that Ukraine had only received \$32.2 billion in total external support, just over half of the identified need. The Ukrainian Finance Ministry reacted quite adequately by cutting its expenditures to a bare minimum, but even so it needed to call on the National Bank of Ukraine to provide monetary financing of about \$1 billion a month. The inevitable consequence was that Ukraine's inflation rose sharply to 27 percent in October, and Ukraine was forced to carry out a major devaluation. Serious worries arose about much higher inflation. Fortunately, these widely publicized concerns led to a mobilization of EU and other Western financing in the last quarter of 2022.

Second, in May 2022, the European Union committed €9 billion in macroeconomic financing to Ukraine for the rest of 2022. Alas, all the disbursements were delayed, and in the end the EU only delivered €6 billion of this macroeconomic financing. The EU fell short of €3 billion in financing to the Ukrainian state budget, which is a lot of money. The reason for this shortfall in EU financing was that the German Finance Minister Christian Lindner did not want any increase in EU mutual indebtedness, and he let Ukraine down because each country has a veto in the Council of the EU.

Third, the United States, in particular the republicans who were in opposition, reacted very negatively to the EU not fulfilling its commitments. From June 2022, the US contributed approximately \$1.5 billion a month to the Ukrainian state budget, amounting to a total of \$13 billion in 2022. Meanwhile, the EU disbursed its funds haphazardly and unpredictably,

and altogether only \$8 billion in 2022. The general US view is that the US can provide most military support, but it expects Europe to offer most financial support. This aroused a serious republican opposition to more financial support to Ukraine.

Fourth, the US financial support to Ukraine consists almost entirely of grants, while the EU macroeconomic financial assistance consists almost entirely of debts. EU representatives hasten to explain, as the report records, that the EU credits are extremely concessional. As the report notices: “The loan repayment period will be 35 years, interest and other debt service payments to be paid by EU countries.” This is good, but it is also hypocritical and harmful, because this is a formal debt to Ukraine, while the EU countries in effect give it away. Since this is almost a grant, it would make much more sense that the EU did as the US and just gave the money away as grants. It would be clearer and frankly more honest and it would help generating more support for Ukraine.

Ukraine has already a public debt of 90 percent of GDP – it increased from 50 percent of GDP in 2021 because as a result of the war Ukraine’s GDP fell by 30 percent and the hryvnia was sharply devalued in 2022. Therefore, most of Ukraine’s financing should come in the form of grants and not as loans. Ukraine will require a restructuring of its public debt. Such market expectations are reflected in the public debt being traded at about 20 percent of the nominal value. Thus, Ukraine will not have access to the international financial market for years.

Fortunately, the EU learned its lesson from 2022 and already in November 2022 it committed €18 billion in macroeconomic financing to Ukraine for the whole of 2023, that is, the desired €1.5 billion a month. So far, its periodic disbursements appear to be on schedule. Yet, because its late and faltering payments in 2022, the EU lost a lot of credibility in Washington. As a consequence, the US has now reduced its budget financing to Ukraine from \$1.5 billion a month to \$1.1 billion a month or \$9.9 billion during the first nine months of 2023, although the US Congress authorized no less than \$45 billion in total financing for Ukraine during those nine months. Arms compose the largest share. Because of rising opposition from the committed Trumpists in the republican party, some republicans now oppose further support to Ukraine after September 2023.

Another fortunate development is that the Ukrainian budget deficit has declined because of better tax collection and even stricter expenditure controls, so that the actual budget deficit during the first quarter of 2023 was only \$2.9 billion a month, which was more than fully financed by foreign financing. Ukraine’s international reserves have risen to \$31.9 billion, the highest level since 2011. As a result, Ukraine’s inflation is now declining by about 1 percentage point a month, being 25 percent in February.

Moreover, the International Monetary Fund has under pressure from G-7 finally composed a substantial stabilization program for Ukraine, a four-year Extended Fund Facility with financing of \$15.6 billion. The IMF is supposed to provide loans of \$4.5 billion this year.

Together, the EU, the US and the IMF have already committed \$34.5 billion out of the desired \$38 billion in budget financing in 2023.

The report offers a seemingly comprehensive picture of the EU economic assistance to Ukraine. The dominant impression is that it consists of a large number of relatively small projects, while the total amount of assistance is big. The Ukrainian state administration has surprised everybody by functioning remarkably well during the war, but one is left worrying that these many projects will require too large administrative capacity, perhaps more than either the EU or Ukraine can provide. More streamlining appears desirable.

A positive aspect is that the EU assistance is not focused only on the central government but reaches various ministries directly and also local self-government nongovernmental organizations, such as the homeowners' associations. Presumably, this broad and deep reach of the EU financing contributes to enhance the Ukrainian absorption capacity, which is an issue of great concern given that the foreign aid is so large in relation to the Ukrainian GDP that has shrunk to about \$150 billion.

Still, it remains vital that adequate rules for transparency and accountability are being maintained. It is important that open, electronic procurement processes, such as ProZorro, are kept.

The conditions posed by the EU, and proposed by the report authors, cause many comments. The IMF has long been considered to pose the most effective conditions for several reasons. First, the IMF offers large amounts of money, which make governments listen. The EU does that as well now. Second, the IMF focuses on a limited number of key conditions, typically half a dozen, which have to be fulfilled for further disbursements, while it also has other conditions that are not compulsory. Third, the IMF is tough and stops its disbursements if the conditions are not respected by the receiving country. Even so, the IMF has come to the conclusion that conditions without sufficient program ownership by the government in question does not work.

The EU conditions mentioned in this report are far too many. Each little EU project is accompanied with its own conditions. This has several negative consequences. The number of conditions is far too many. Most of them refer to each specific project, which means that the most important issues, such as the rule of law and the reinforcement of private property rights are more or less ignored. Instead, both the EU projects and the proposals of the report authors contain a large number of vague and often technical conditions.

When the European Commission and the Council of the EU accepted Ukraine as an EU candidate in June 2022, they did so with seven conditions. The Commission will monitor Ukraine's progress in fulfilling them. Since these are the key EU conditions, the main EU financing, the €18 billion in macroeconomic financing, ought to be tied to them. The seven conditions are in abridged form:

1. to enact and implement legislation on a selection procedure for judges of the Constitutional Court of Ukraine;
2. to finalize the integrity vetting of the candidates for the High Council of Justice members by the Ethics Council and the selection of candidate to establish the High Qualification Commission of Judges of Ukraine;
3. to further strengthen the fight against corruption;
4. to complete the appointment of a new head of the Specialized Anti-Corruption Prosecutor's Office; (As the report rightly points out, "Thanks to EU demands, in July 2022 Ukrainian authorities finished the process of appointment of the new head of the Special Anti-Corruption Prosecution Office." So this has been done.)
5. to implement the Anti-Oligarch law to limit the excessive influence of oligarchs in economic, political, and public life; (This is a dubious condition better omitted, since the essence of the Anti-Oligarch Law is to deprive private businessmen of television channels, naturally leading to an undesired concentration of state media power.)
6. to tackle the influence of vested interests by adopting a media law that aligns Ukraine's legislation with the EU audio-visual media services directive;
7. to finalize the reform of the legal framework for national minorities currently under preparation.

In general, small, vague and too technical conditions should be avoided, while the main emphasis should lie on major issues. The most important shortcoming in Ukraine is the rule of law and thus property rights because of insufficient ethical standards of top judges and other judicial officials. Other major issues are deregulation and privatization to reduce the state burden on the Ukrainian economy, which tend to be omitted with an undue focus on technical details.

The EU also needs to consider what is its comparative advantage in comparison with other international donors. I would suggest rule of law and democracy, while the IMF takes care of macroeconomics, the World Bank many microeconomic conditions, and the EBRD corporate governance. In many cases, international donors cooperate and the forthcoming Ukrainian recovery agency should be a major force in Ukraine's reforms. Hopefully, it will also include Ukraine's EU accession.⁵³

53 Anders Åslund and Andrius Kubilius, *Reconstruction, Reform and EU Accession for Ukraine*, Stockholm: Free World, 2023.

Imants Lieģis, Senior Fellow, Latvian Institute of International Affairs

East European Studies Centre commentary/analysis on economic assistance to Ukraine

The death and destruction caused by Russia's full-scale war against Ukraine prompted unprecedented responses. Europe had not witnessed such brutal and callous military action on its territory for 77 years. The shock of war spurred united Euro-Atlantic responses on both sanctions and economic assistance. (Military support proved more of a challenge.) The perpetrator, Russia, is being hit with sanctions. The victim, Ukraine, is receiving economic support as quickly and efficiently as possible. The aim of this dual-track approach of sanctions and support is to ensure, together with other actions, a Russian defeat and a Ukrainian victory. However, the victory and defeat are still to be defined and will ultimately impact the scale of ongoing economic support given to Ukraine.

In analysing and commenting on the article by three Ukrainian authors entitled "EU economic assistance to Ukraine after full-scale Russian invasion: scope, impact and ways for improvement", I will say a few words about the article itself and then link in some broader aspects of economic assistance, namely recovery and reconstruction, the fight against corruption, and making the perpetrator pay.

What the study says

The study on economic assistance to Ukraine focuses primarily on economic support provided by the European Union (EU) since 24th February 2022. It considers how the financing is being used and offers suggestions to the donors concerning policies for ongoing assistance. The authors rightly point out that the "initial EU assistance, delivered to Ukraine since the beginning of the full-scale war, had diverse forms, complex goals, and design to support different beneficiaries". There is a detailed description of both the mechanisms used by the EU as well as the manner in which the support funds are being used. Given Ukraine's determined path towards membership of the EU, it is understandable that the authors focus specifically on economic support emanating from the EU.

The bulk of the funding is being provided by way of loans. The first agreement was signed by the EU and Ukraine on 3rd March - just 10 days following Russia's 24th February so called "special military operation". Between 11th March and 20th May 2022, a total sum of €1,2 billion of Macro Financial Assistance was received by Ukraine from the EU; by the end of the year this sum totalled €7,2 billion. For 2023 an agreement has been reached for a further disbursement of €18 billion. Although this funding is by way of a loan, the study points out that there is agreement that EU members states will pay "interest and other debt service payments".

Grants have also been provided in response to the emerging needs, beginning with an agreement being reached on 21st March for €120 million relating to State and Resilience Building. Later in the year, grants of €566 million in total were disbursed for the purpose

of “Reducing vulnerability and increasing food security through support for the affected population and agricultural production in Ukraine”. The European Investment Bank (EIB) also engaged early on in the full-scale war by offering “urgent response” loans in the sum of €1.59 billion for repairing critical infrastructure and providing food, healthcare, shelter and fuel for Ukrainian citizens, including Internally Displaced Persons.

The EU itself defines the economic support provided to Ukraine in a broader sense than that encompassed by the study. According to the website of the Council of the EU, the “EU and its member states have made available around €72 billion in support for Ukraine and its people since the start of Russia’s war of aggression”⁵⁴ (i.e. since 24th February 2022 as opposed to 2014). Just over half of this sum (€37.8 billion) is slated as “economic assistance” with the remainder covering support for refugees in EU countries (€17 billion), humanitarian aid (€1.99 billion) and military support (€15.3 billion).

Recovery and reconstruction

Future economic assistance is also being actively considered by Ukraine’s supporters. Although at the time of writing this analysis (end of June 2023) the fighting on the ground prevents accurate forecasting of when Russia’s war against Ukraine will come to an end, the question of recovery and reconstruction has in fact been on the agenda of Ukraine’s supporters for some time. “Ukraine Recovery Conferences” took place in July and October last year. The latest one in London on 20th- 21st June concluded with pledges by the EU in the sum of €50 billion for the period through to 2027. Although there are talks of a new “Marshall Plan” for Ukraine, it should be recalled that this plan was organised primarily by one country, the USA. The current plans for Ukraine envisage numerous actors - international institutions, states and the private sector - combining their efforts.

Forecasts of the sums required for the future rebuilding of the war-devasted country are also a type of “moving target”. For example, the cost of dealing with the consequences of the destruction of the Kakhovka dam continues to increase. If Ukraine succeeds in its justified aim of recovering occupied Crimea, further reconstruction expenditure will have to be taken on board. In any event, the cost of reconstruction mentioned by the World Bank at the London Conference on 21st June, based on estimates made a few months earlier and prior to the flooding caused by the destruction of the Kakhovka dam, amounted to almost €400 billion. This estimate covers the first year of the full -scale war and was based on the reconstruction and recovery costs stretching over a ten- year period⁵⁵.

Recovery and reconstruction are issues that are not only orientated to the future. They cannot be disentangled from the ongoing economic assistance being proffered. This was indeed pointed out by Ukraine’s Prime Minister, Denys Shmyhal who in March this year stated that “recovery ...has already begun. Energy infrastructure, housing, critical

⁵⁴ <https://www.consilium.europa.eu/en/policies/eu-response-ukraine-invasion/eu-solidarity-ukraine/#reconstruction>

⁵⁵ <https://www.worldbank.org/en/news/press-release/2023/03/23/updated-ukraine-recovery-and-reconstruction-needs-assessment>

infrastructure, economy and humanitarian demining are our five priorities for this year. Part of the reconstruction work has already been done⁵⁶.”

The battle against corruption

Given the ongoing intense contacts between Brussels and Kiev, it seems clear that Ukraine can have no illusions about the homework that it needs to do concerning existing rule of law issues. Indeed, the study takes a very realistic approach in this regard by not shying away from these conditionality issues relating to corruption and transparency.

Hence by stating that the first (of four) requirements for future EU economic aid should be “promoting effectiveness and transparency of budget spending and further enhancement of the anti-corruption institutional capabilities”, the study underlines one of the key challenges facing Ukraine – how to deal with corruption. This issue should not be underestimated. In many ways this can be regarded as an existential struggle, with civil society and international supporters pushing for transparency and anti-corruption measures, but Russia wanting to maintain its corrupt links and influence in its neighbouring country. It is worth recalling that the popular support for the EU, combined with Ukraine’s civil society’s determination to move out of the space of Russian corruption, were on full display during the Maidan demonstrations of 2014, and subsequently led to the start of Russia’s war of aggression.

Ukraine’s partners recognize that ongoing institutional support and capacity building in the fight against corruption needs to be continued. Indeed, this was acknowledged at the London Recovery Conference, where funding offers included sums for fighting corruption. Remarkably, the long internal battle against oligarchy and corruption has been continued even during the full-scale war launched by Russia. This has been highlighted in a recent thorough and balanced report published by the German Marshall Fund and the Brookings Institution entitled “Ukraine’s Anti- Corruption Front. Helping Ukrainians Win the War and the Peace by Having Their Backs against Oligarchy⁵⁷”. It offers specific policy recommendations not only for Ukraine itself, but also for Ukraine’s supporters in the EU, United States and G7.

As far as the EU itself is concerned, many member states will be mindful of problems within their own ranks, relating, for example, to Hungary and Poland, where democratic backsliding principles are on the agenda. The receipt of EU funds has probably been the most effective instrument available to Brussels in reigning in both countries. Both countries are neighbours of Ukraine and policy makers in Brussels, when dealing with Ukraine, may well recall the challenges posed by Budapest and Warsaw in handling rule of law questions. At the same time, there are also founding EU member states which have, even in recent times, had their own challenges in handling a political elite whose members have engaged both in high level corruption and murky ties with Moscow. Italy and France come to mind in this respect.

⁵⁶ ibid

⁵⁷ <https://www.gmfus.org/news/ukraines-anti-corruption-front#:~:text=Ukrainian%20reformers%20innovated%20world-leading%20transparency%20systems%2C%20established%20an.Voters%20renewed%20the%20anti-corruption%20mandate%20through%20democratic%20transitions.>

Make the perpetrator pay

Economic assistance for Ukraine, whether from the EU or other donors, needs to be supplemented by Russia. As the perpetrator of the mindless genocidal war, the deaths and the enormous damage inflicted on Ukraine, Russia's corrupt, oligarchical regime should not be allowed to get off scot-free for its crimes.

The political will amongst Ukraine's backers seems to be present, judging by the remarks made at the London "Ukraine Recovery Conference", namely, that "Russia would one day be made to pay for the destruction". There are currently around \$300 billion of Russian Central Bank assets that have been frozen, with additional oligarch money on top. Mechanisms should be set up to enable these assets to be confiscated and used for the reconstruction of Ukraine. The use of sanctions in the freezing and confiscation of assets can be one way to get to the funds. There are reports that Britain has taken steps allowing such Russian funds to be kept frozen until Ukraine is compensated for the invasion⁵⁸. Creative measures within international legal norms need to be employed to ensure that blocked assets can be used for the reconstruction of Ukraine. The legal and practical hurdles need to be overcome, and were already described last year in an article in the Economist⁵⁹.

Concluding comments

The three authors of the EU Economic assistance study display an excellent grasp of the nuances and details of EU support. The recommendations offered are creative and detailed, even though they are mainly confined to the short term. The wider context, both outside of the confines of the EU and in the longer term, brings in issues relating to the fight against corruption and the reconstruction and recovery process. Along with the use of Russian frozen assets, these questions are closely linked to that of economic assistance.

Without highlighting this important fact, the authors mention how rapidly and comprehensively the EU reacted to Ukraine being subjected to a full-scale Russian military assault. The EU deserves praise for this speed and effectiveness. The fact that the EU was founded as a post-World War 2 peace project may have helped with the speed of reaction. Given that Russia's war against Ukraine had already begun in 2014, eight years earlier, there was a political familiarity with Russia's aggression which helped spur the EU to respond urgently. The "wake up call" was finally heard on 24th February 2022, even though it had been put on hold by the majority of EU member states since 2007 (cyber-attacks against Estonia), 2008 (military intervention in Georgia) and 2014. Procrastination in providing economic support in the face of Russia's full-scale war would have been unacceptable. Such a "wait and see" approach comes with certain challenges and risks, as witnessed by the controversy surrounding hesitation in providing Ukraine with military support.

58 <https://apnews.com/article/ukraine-recovery-conference-london-6f95b2f0a6f06b2d3cbe170e678fa4a2>

59 <https://www.economist.com/finance-and-economics/2022/06/06/could-seizing-russian-assets-help-rebuild-ukraine>

Ukraine's status as a participant in the Eastern Partnership with the EU since 2009, combined with associate status since 2017, probably helped to focus EU actions after 24th February 2022. It meant that bureaucrats in Brussels and Kyiv already knew one another. Contacts had been established and therefore the cooperation was not starting from scratch. The EU relationship with Ukraine was of course quickly given additional impulse following 24th February 2022. Ukraine submitted a formal application for membership of the EU on 28th February 2022 – four days after the outbreak of full-scale war. Candidate status was granted at the European Council summit meeting on June 23rd 2022. From the political perspective, Ukraine seeks the opening of negotiations this Autumn. The process of EU integration intertwines economic and political factors. A decision on whether all EU countries agree to open accession negotiations can be influenced by existing member states' internal considerations, as well as developments in Ukraine itself. At the same time, the prospect of EU membership can, in itself, motivate a candidate country and hasten the implementation of necessary reforms.

Lofty assertions about Ukraine fighting for Europe's freedom can be confronted by political realities when push comes to shove about the decision on starting negotiations. Irrespective of that decision, in the short term, a clear and detailed road map for crucial ongoing economic support from the EU is offered by three well informed Ukrainian academics; all credit for that to Drs. Zhalilo, Kolosova and Deshko.

Denis Cenuša, Associate Expert, Eastern European Studies Centre

The report authored by Yaroslav Zhalilo, Dr. Sc. Viktoriya Kolosova, and Dr. Sc. Antonina Deshko, titled "EU Economic Assistance to Ukraine after the Full-Scale Russian Invasion: Scope, Impact, and Ways for Improvement," provides a comprehensive analysis of the European financial support and its influence on Ukraine's macroeconomic stability in the wake of the Russian invasion.

The authors accurately highlight the crucial role of EU financial assistance, encompassing both loans and grants, in helping Ukraine navigate through budgetary challenges. This support not only sustains the functionality of Ukraine's public sector but also allocates resources to manage crises in a targeted manner, notably addressing the needs of internally displaced persons (IDPs), critical infrastructure repairs, and household rehabilitation, among other critical intervention areas.

EU financial assistance has played a constructive role in bolstering Ukraine's budget, ensuring public payments and stabilizing inflation trends. It's also noteworthy that the EU continues to tie financial support to the implementation of structural reforms, which is a crucial factor in progressing towards EU accession negotiations.

The policy recommendations put forth by the authors are constructive for both Ukrainian and EU institutions. They emphasize the necessity of enhancing budget planning, monitoring, and performance, and also underscore viewing EU financial assistance as a catalyst for preparing both Ukraine and the EU for Ukraine's future accession.

The report effectively underscores that EU financial support, if managed with greater ambition and effectiveness, can contribute significantly to both the post-war reconstruction of Ukraine and the realization of essential reforms for European integration. Above all, the EU's assistance plays a vital role in maintaining Ukraine's economic resilience until the war concludes.

Background

In the wake of the extensive Russian military aggression, Ukraine found itself heavily reliant on external financial aid to stabilize its balance of payments. The consistent inflow of financial support, primarily from Western sources, especially the EU, played a crucial role in sustaining the country's central administrative apparatus, enabling it to effectively manage the wide-ranging crises triggered by the Russian aggression. Notably, the public sector significantly benefited from this external financial assistance, as it permitted the redirection of portions of public funds toward defense requirements. The absence of these Western and European financial injections would have left Ukraine's economic resilience vulnerable to highly likely massive disruptions.

Ukraine faced significant socio-economic challenges that demanded urgent attention, prompting the EU and other Western partners to provide essential financial assistance.

The EU's financial aid is targeted at bolstering Ukraine's public sector and economy during conflict periods, but the release of these funds is subject to a set of specific reform requirements. These conditions typically cover political reforms, particularly in the areas of good governance and anti-corruption measures, as well as economic reforms.

The authors of the report astutely emphasize the interdependence between the loans and the reforms, shedding light on this crucial aspect within the context of the EU's macro-financial assistance. This principled and systematic approach from the EU, attaching conditions to its budgetary support, reflects a robust expectation that Ukraine should continue its reform efforts even in the midst of countering military threats from Russia. While conditionality is indeed vital to maximizing the impact of financial assistance, it's important for the EU to maintain a realistic perspective on what can be feasibly achieved in a country grappling with an existential war of aggression.

EU financial assistance to Ukraine since 24 February

The available data unequivocally demonstrate that the EU has become a significant, if not indispensable, financial partner for Ukraine. From January 24, 2022, to May 31, 2023, the EU committed a substantial sum of 27.3 billion euros, leading the efforts compared to others, such as the US, whose commitments amounted to 24.3 billion euros⁶⁰. It is worth noting that these figures pertain to non-military aid, with the EU's contribution in this area being approximately eight times less than that of the US.

The disbursed funds from the EU total 11.2 billion dollars⁶¹, provided between February 2022 and March 2023, in contrast to the committed financial assistance. Zhalilo, Kolosova, and Deshko aptly highlight that the predominant share of the EU's financial support consists of loans, accounting for approximately 94% of the total 11.2 billion dollars. It's noteworthy that the most significant financial mechanism employed by the EU thus far to offer substantial support for Ukraine is the 18 billion euros macro-financial package, ensuring Ukraine receives a mid-term financial injection of approximately 1.5 billion euros per month throughout 2023⁶². Moreover, the EU has made a significant commitment to provide Ukraine with a total of 50 billion euros in aid by the year 2027⁶³. Nevertheless, the EU's assistance requires additional contributions from other Western institutions, as the estimated monthly needs for Ukraine are at least 4 billion euros.

The financial terms for European loans specify a repayment period ranging from 10 to 35 years. Given the ongoing war, the recent EU financial agreements with Ukraine appear

60 Kiel Institute for the World Economy, Ukraine Support Tracker, <https://www.ifw-kiel.de/topics/war-against-ukraine/ukraine-support-tracker/>

61 Ministry of Finance of Ukraine, Ukraine's State Budget Financing Since the Beginning of the Full-scale War, 7 August 2023, https://mof.gov.ua/en/news/ukraines_state_budget_financing_since_the_beginning_of_the_full-scale_war-3435

62 European Commission, Commission proposes stable and predictable support package for Ukraine for 2023 of up to €18 billion, 9 November 2022, https://ec.europa.eu/commission/presscorner/detail/pt/ip_22_6699

63 Gabriela Baczyńska, EU offers Ukraine 50 billion euros through 2027, June 20, 2023, <https://www.reuters.com/world/europe/eu-unveil-50bln-euro-aid-package-ukraine-sources-2023-06-20/>

to demonstrate a willingness to alleviate Ukraine's financial burden by facilitating more manageable repayment of EU loans. However, the long-term impact and continued availability of EU financial support will ultimately depend on the diversity and volume of funds originating from various international actors.

Effectiveness of the EU economic assistance

Ukraine has derived substantial benefits from EU financial assistance through two key avenues: ensuring budgetary stability and driving structural reforms.

On one hand, as previously emphasized, the infusion of EU loans, in conjunction with other Western financial resources, has shielded the Ukrainian state from the brink of financial insolvency, enabling it to meet its domestic expenditures and service its external debts. The authors provide with data exemplifying the diversity of the impact of the EU budgetary assistance that ranges from maintaining the essential public services (such as hospitals, schools, and public administration) to safeguarding vulnerable segments of the population (including pensioners and IDPs)⁶⁴.

On the flip side, the EU's financial assistance was accompanied by a robust reform agenda, a goal that was significantly threatened by the Russian offensive, aimed at destabilizing the Ukrainian state. The authors highlight the impact of EU conditionality by showcasing the successful appointment of a new head for the Special Anti-Corruption Prosecution Office, a milestone achieved during the first half of 2022⁶⁵. Another promising development is the heightened activity of the National Anti-Corruption Bureau, which initiated 293 new investigations and submitted 34 indictments to the court in the latter part of 2022⁶⁶.

The EU has a longstanding tradition of linking its financial support to anti-corruption measures. This approach should continue to be a paramount priority, especially considering that recent reports highlight ongoing incidents of corrupt behavior among high-level officials⁶⁷ and lower-level public servants⁶⁸, even amidst the backdrop of the ongoing war. Failure to effectively address corruption could have significant repercussions, potentially leading Western partners to become less willing to provide financial support for both the current assistance to Ukraine and the future reconstruction efforts. Public procurement, corporate governance, and other reforms should continue to be prioritized alongside anti-corruption efforts as part of the EU's financial assistance conditionality.

64 Delegation of the European Union to the United States of America, EU Assistance to Ukraine (in U.S. Dollars), https://www.eeas.europa.eu/delegations/united-states-america/eu-assistance-ukraine-us-dollars_en?s=253

65 Sonia Lukashova, "You want to hear me resist? I don't." Oleksandr Klymenko's first major interview with the new head of SAP, December 14, 2022, <https://www.pravda.com.ua/articles/2022/12/14/7380724/>

66 National Anti-Corruption Bureau of Ukraine, 293 investigations, 149 suspicions and 68 people on the dock: the results of the work of NABU and SAP in the II half of 2022, 2023, <https://nabu.gov.ua/news/novyny-293-rozsliduvannya-149-pidozr-ta-68-osib-na-lavi-pidsudnyh-rezultaty-roboty-nabu-i-sap-v-ii/>

67 Emmanuel Martin, Ukraine's other war, May 22, 2023, <https://www.gisreportsonline.com/r/ukraine-war-corruption-2/>

68 The New York Times, Russia-Ukraine War Zelensky Cracks Down on Corruption in Military Recruitment, 11 August, 2023, <https://www.nytimes.com/live/2023/08/11/world/russia-ukraine-news>

EU assistance in grants

The strategic allocation of EU grants, despite their smaller share compared to loans, brings a focused and impactful approach to supporting Ukraine. These non-reimbursable aids, delivered through specialized EU assistance programs, have been instrumental in facilitating swift transfers for vital public expenditures. The report by Zhalilo, Kolosova, and Deshko highlights the substantial commitment of up to 7 billion euros, channeled into over 30 grant-based assistance programs for Ukraine throughout 2022 and the first quarter of 2023.

The scope of the EU grants extended to cover a wide array of essential expenses primarily focused on providing support for IDPs, the rehabilitation of critical energy infrastructure, and the reconstruction of households that had been destroyed by Russian attacks.

The EU's grants for Ukraine have been strategically directed toward crisis management initiatives, notably focusing on providing support for Internally Displaced Persons (IDPs) and the agricultural sector. Since February 2022, a substantial portion of the EU's allocation, approximately 30%, has been dedicated to addressing shelter needs for IDPs⁶⁹.

Farmers have also been beneficiaries of this non-reimbursable assistance. The agricultural sector faced severe disruptions due to the ongoing conflict, including losses in production potential from military activities, Russian territorial occupation, mining, and supply chain disruptions. It's estimated that Ukraine could require up to 37 billion dollars for demining efforts over the next decade⁷⁰.

Furthermore, the EU's financial support extends to critical infrastructure rehabilitation, with a focus on the Odesa region ports and the expansion of road and rail transportation routes. To enhance cross-border trade and connectivity, the EU has earmarked more than €350 million to improve the capacities of "green corridors" that link Ukraine with neighboring countries such as Poland, Romania, Hungary, Slovakia, and Moldova⁷¹. This strategic allocation demonstrates the EU's commitment to bolstering Ukraine's recovery and resilience across multiple dimensions.

69 European Commission, European Civil Protection and Humanitarian Aid Operations, https://civil-protection-humanitarian-aid.ec.europa.eu/where/europe/ukraine_en

70 Denis Cenusa, Russia's attack on the Odesa ports and the looming food crisis, August 2, 2023, <https://www.intellinews.com/cenusa-russia-s-attack-on-the-odesa-ports-and-the-looming-food-crisis-286344/>

71 European Commission, European Climate, Infrastructure and Environment Executive Agency, List successful projects under the 2022 CEF Transport call for proposals, https://cinea.ec.europa.eu/system/files/2023-06/Overview%20Selected%20Proposals_FINAL.pdf

Policy Recommendations

The findings highlighted by the authors underscore the stabilizing impact of the EU's financial assistance on Ukraine, demonstrating its ability to bolster the country's economic resilience in the face of ongoing wartime challenges. Moreover, the EU's support serves as a catalyst for essential structural reforms, creating a positive trajectory for the deepening of the accession dialogue between Ukraine and the EU.

The recommendations offered in the report address key aspects of EU financial assistance, highlighting opportunities for collaboration between stakeholders on both the EU and Ukrainian sides to enhance effectiveness. Particular attention is needed for optimizing the interdependencies and coordination among the various financial aid sources from international partners.

Of notable importance are the report's suggestions for increased budgetary transparency and the strengthening of institutional capacity for monitoring and auditing the utilization of EU financial assistance. These steps are pivotal in ensuring that the financial support achieves its intended goals, avoiding corruption risks.

An especially forward-looking element of the recommendations involves integrating EU financial assistance into the broader EU accession policy for Ukraine. It would represent a significant stride if the EU were to incorporate this financial support into a comprehensive long-term "road map," aligned with parallel post-war reconstruction and the ongoing European integration of Ukraine.