

Designing Reconstruction in Ukraine

SUMMARY & KEY RECOMMENDATIONS

Even as the war continues in parts of Ukraine, attention has turned to the anticipation of planning for reconstruction and recovery. Given the extent of the devastation, there will be a range of severe challenges facing Ukraine and its people, from physical reconstruction and restoring the economy to the return of refugees, supporting those affected by trauma and injury and repairing the social fabric. International experience shows the importance of anticipating issues that can make the difference between successful or failed reconstruction. The Institute for State Effectiveness (ISE) has identified a set of key issues and principles that will be central to effective and accountable reconstruction in Ukraine to respond to the needs of the people and re-establish the foundations for Ukraine's self-reliant economy and prosperous, inclusive democracy. While there are myriad specific technical and logistical challenges facing the country—such as energy security and rebuilding key infrastructure—the issues identified here instead examine essential cross-cutting challenges and opportunities experienced in other reconstruction contexts that will contribute to the success or failure of reconstruction and recovery. This report sets out global lessons learned from previous recovery and reconstruction efforts and analyzes the specific risks and opportunities facing Ukraine during reconstruction. Using a mixture of global expertise, interviews with experts and case study research, this report attempts to contribute insights related to the design principles, mechanisms and processes for effective and accountable reconstruction in Ukraine.

A Ukrainian-led vision for reconstruction, stability and growth

Ukrainians must architect their own strategy for recovery and visions for the future. While the country's international partners have indicated their commitment to Ukrainian ownership of recovery and reform, experience in other cases of reconstruction demonstrates that financial dependency and capacity constraints after conflict lead to the consolidation of decision-making power in the hands of donors—rather than local actors—with the effect of undermining local ownership.

Thus, Ukraine and its partners must go beyond commitments for Ukrainian-led recovery and design a robust system that puts Ukrainians in control of setting priorities for reconstruction and reform in partnership with international actors. This system is built around a **platform for citizen engagement and consensus-building** on the government's plans for reconstruction, where the Ukrainian government, citizens and private sector can together **map both the needs and assets** required to meet their long-term objectives and visions for the future. Ukraine's leaders can then produce a **clear strategic architecture with well-sequenced and prioritized programs and flagship projects**, realistic timelines and objectives, and clear requests for support that the country's partners can line up behind **based on their comparative advantage**.

1. Incorporate platforms for inclusive consensus-building and citizen engagement

Platforms for citizen engagement and consensus-building are critical to ensuring a sustainable Ukrainian recovery. During reconstruction, it will be essential to build and maintain a platform that allows the country's wide range of societal actors across regional and linguistic groups, civil society, community organizations, the private sector, academia and professional associations, among others, to contribute to and monitor the recovery planning process. This platform should ensure that these societal groups, as representatives of the public at large, play a deep advisory and planning role, rather than mere service delivery. The Zelenskyy government has made progress in engaging the civil society and academic sectors ahead of the release of the National Recovery Plan in July 2022, boasting input from more than 3,000 experts, officials and parliamentarians. The challenge for the government will be to continue and expand this engagement with citizens, community organizations and private sector actors deeper into the planning process.

A platform for citizen engagement and consensus-building should build outward from the successes of the country's municipal and territorial community governments. Local governments are well-placed to take the lead in organizing public-facing forums and consortiums of societal actors that contribute to the agenda at all stages of the recovery process. This information should then pass through a formal mechanism, such as through reporting to the Ministry of Communities and Territorial Development, to inform national recovery planning. A representative set of the Ukrainian public should be given a seat at the national planning table and offered an active role in the delivery of the government's recovery plan. Similarly, international partners should empower and support existing third-party monitoring and auditing efforts by civil society groups to facilitate their growth and enhance their role in Ukraine's democratic accountability structures. Separately, a series of nationwide dialogues hosted by regional governments could seek to discuss differences in the public's future vision of Ukraine, especially differences between age groups, regions and linguistic communities.

2. Map assets alongside needs to create an accurate “balance sheet” for reconstruction

When developing priorities for reconstruction, Ukrainian and international stakeholders must consider both needs and assets for recovery. Surveys such as the World Bank’s August 2022 Rapid Damage and Needs Assessment (RDNA) provide policymakers with detailed estimates of damages that can be used to set priorities for reconstruction, especially for physical infrastructure. While damage assessments are necessary, they are only one-half of the ledger. Ignoring existing or untapped assets risks constraining thinking around recovery pathways and priorities for reform.

Stakeholders should complement damage assessments with asset maps that identify, categorize and value physical, socio-cultural, human, natural and institutional capital that can serve as the basis of planning. Effective asset maps are founded on a registry of all tangible and intangible national assets, which can be used to develop a “balance sheet” that provides a clearer picture of assets and liabilities. Ukrainian leaders are currently in the early stages of this process, and there are several specific asset areas to consider when planning reconstruction. These include a high-capacity civil service that can own and lead reforms and recovery programs, significant levels of human capital that can serve as a foundation for economic growth, strong cultural traditions and national identity and a robust civil society with a proven track record of working with government partners, among others.

3. Align partners based on comparative advantage within a sequenced strategic architecture

The transition from consensus-building on high-level visioning to a sequenced, actionable architecture of strategies, policies, programs and projects is a critical process for Ukraine and its international partners. The stage in which reconstruction *strategy* is transformed into reconstruction *activities* is where aid risks becoming fragmented as donors implement their preferred programs and projects. By developing a strategic architecture that breaks down a national vision for recovery into a set of nested policy priorities, programs and projects—and clearly sequenced priority interventions—Ukraine can align its international partners with priority areas in which they offer a comparative advantage, setting the foundation for a coordinated reconstruction agenda that delivers high value-for-money and effectively supports Ukrainians and their communities. The National Recovery Plan presented by the government at the Lugano conference in July—which identifies 15 priority programs with related, costed projects—was an important step in developing a strategic architecture for reconstruction.

As Ukraine embarks on the next phase of recovery planning, it will need to continue refining the prioritization and sequencing of its strategy to align international partners’ support around their areas of comparative advantage. Clearly sequenced national programs with related objectives, interventions and required inputs give donors the flexibility to contribute efforts based on their comparative advantage and national interests while maintaining coherence across core and projectized support to Ukraine. Likewise, the Ukrainian government will need to critically evaluate how to prioritize and sequence its recovery programs to achieve maximum impact. Even high-capacity civil services struggle to manage more than a handful of flagship projects at the same time, and a well-coordinated process of winnowing and de-confliction will be needed to ensure alignment with the recovery vision, ideally beginning with a small amount of high-priority, high-impact programs and projects to lay a strong foundation for long-term recovery.

Appropriate international and regional partnerships, objectives and responsibilities

Given the scale and complexity of reconstruction, a strong coordination architecture will need to be developed between Ukraine and its partners—built on leadership by the Ukrainian people, who know what is needed for success in the country’s transformation. While other experts have set out recommendations for the architecture of a system led by international actors, it is critical to outline how this system will allow Ukraine to lead in determining what inputs are needed from whom, mapping and coordinating offers of support and accountably delivering on results for reconstruction.

The design of this system should start with the development of **coordination mechanisms within the Ukrainian government** to streamline and consolidate requests to partners. To meet these requests, donors should work with international financial institutions (IFIs) and Ukrainian leaders to develop a **single platform for reconstruction finance** that—while not requiring the use of a single fund or account—reduces competition among funders and ties **different types of finance to Ukraine’s needs at different times and for different purposes**. A **mutual accountability framework** that sets out roles and expectations between actors should act as the foundational document for this system, providing the basis for **realistic donor conditions on financial disbursements** that support the country’s reform pathways and the long-term objective of European Union (EU) membership.

4. Develop a system for Ukrainian-led coordination with clear roles for central and local actors

Ukraine should lead the coordination of assistance provided by its international partners, guided by a national vision for recovery, inputs from decentralized local government actors and prioritized plans for key pillars of reconstruction. While donor governments have increasingly made commitments to basic principles for effective coordination (e.g., on recipient ownership and value-for-money) over the past two decades, it is critical to establish a system that reinforces these commitments and operationalizes Ukrainian leadership and ownership of the recovery process.

A central, locally owned reconstruction body with staff supported by international partners should take the lead in coordinating recovery priorities and actions throughout Ukraine's reconstruction. This body would be responsible for reflecting inputs from local governments, the private sector and civil society actors; making requests for assistance in line with the National Recovery Plan; authorizing and coordinating government and donor activities; monitoring implementation; and communicating progress. This body may take the form of a task force or a new, independent reconstruction agency, depending on the realities of governing structures in Ukraine. However, international secondments—preferably from EU institutions and multilateral development banks (MDBs)—can support this body by facilitating information sharing between the government and its partners and easing Ukrainian capacity constraints. This approach is preferred to a new international coordination architecture that sits above the Ukrainian government as it more thoroughly allows for local ownership and institutional development. In addition to seconded international staff, this central body would be further supported by a domestic and international oversight system, as outlined in the recommendations below.

While the national government will take the lead in coordinating Ukraine's recovery, it will also be necessary to establish the roles and responsibilities of local actors in the reconstruction process. As mentioned above, regional and local governments will need to play a key role in the aggregation of planning inputs from citizens and communities to ensure that local needs and priorities are met during recovery. However, at the same time, central and local actors in Ukraine—along with their international partners—will need to set out the roles that each will play in planning, financial management, implementation, monitoring, reporting and oversight of recovery programming. European actors have already begun exploring direct twinning arrangements with Ukrainian regions and municipalities, but other approaches should also be explored.

5. Allocate support for Ukrainian priorities through a coordinated financial architecture

Even with Ukrainian bodies leading the coordination of assistance in the country, the large amount of financing required for reconstruction and the common stove-piping of aid responses could make for an incoherent approach. While the central reconstruction body should lead in developing the strategic architecture of priorities, programs and projects for recovery, in practice the locus of funding decisions will likely also become the *de facto* policy center of the reconstruction process, meaning that the effective coordination of finances will lead to stronger policy alignment between and among the Ukrainian government and its international partners. Lessons from past reconstruction efforts have also illustrated the heavy burden that is placed on recovering states by multiple policy-setting and reporting processes mandated by various well-intentioned donors. Lessening this burden by closely coordinating the financial architecture and allowing the government to focus on the delivery of reconstruction for its citizens is essential to success in Ukraine.

While existing mechanisms and institutions for financing recovery should be used as much as possible to lower costs, a singular point of coordination for the allocation of international funding is needed. In practice, the financial architecture for recovery and reconstruction should be centered around a country-specific multi-donor trust fund (MDTF) that is maintained by a multilateral partner and aligned with priorities and programs identified by Ukraine. The MDTF would be maintained in an account (or accounts) that are guided but not maintained by the Ukrainian government and can—when feasible—be channeled through the country's existing budgetary systems. Relying on a singular, country-specific funding mechanism at the center of the recovery financing platform has clear benefits (e.g., reliability of funding, greater flexibility to shift funding across priorities as needed, a reduced burden for Ukrainian civil servants), while remaining aligned to national priorities. A singular point of coordination would incentivize donor governments to align financing conditionalities and jointly set clear “sunset clauses” for the termination of assistance to improve the sustainability of results. In addition to the central MDTF, the financial architecture should be flexible enough to accommodate both direct budget support for reimbursable recurrent expenditures to finance Ukraine's fiscal deficit—allocated bilaterally and/or via an IMF-monitored program—and bilateral assistance for large flagship projects and guarantees to spur private investment, as long as they are aligned with Ukrainian priorities.

6. Harness different financing for different needs

To ease Ukraine's debt burden, recurrent expenditures and balance of payments should be financed via grants and low-interest concessional loans while long-term reconstruction programs should utilize a mixture of domestic resources, budget support and, crucially, private financing. The country's large fiscal deficit—expected to be around \$3-4 billion per month in 2023—will need to be financed through direct budget support to maintain basic social services and energy imports. Non-capital recovery programming such as building institutional capacity and digitalizing and bolstering social services should be integrated with national medium-term and policy-based budgeting processes. These should utilize a combination of domestic resources and on-budget support from MDTFs that may be tied to performance-based financing mechanisms. Capital reconstruction expenditures, on the other hand, will require substantial private sector investment as well as project financing provided by key international partners. To achieve the level of investment necessary for reconstruction, Ukraine will need to work with IFIs to reduce the risk of

projects by using tools such as guarantees, “war insurance” and co-financing. This de-risking support will need to occur in tandem with activities to improve Ukraine’s enabling environment to secure and effectively utilize private investment, such as key anti-corruption and judiciary reforms, upskilling of the domestic construction industry and strengthening the government’s public-private partnership (PPP) framework, among others. These improvements will not only support a more effective reconstruction but, in the long-term, ideally open Ukraine to new markets and partnerships. Finally, no matter the expenditure, policymakers should also ensure that financing tools and dispersals are directly tied with the shared recovery and reform roadmap outlined above to avoid creating parallel phasing and prioritization frameworks.

7. Establish a framework for mutual accountability

Reconstruction stakeholders should aim to precisely set expectations with each other through a well-designed mutual accountability framework (MAF). The MAF should set out shared expectations and clearly delineate roles and responsibilities between key actors, including the central government, local government bodies, Ukrainian civil society, international partners and the Ukrainian and international private sectors, among others. The parties should be explicit about the nature and length of their commitments and set out clear and detailed processes for revising the MAF. Additionally, the MAF should set precise benchmarks for sunset arrangements and institutions so that assistance can adapt to different phases of Ukraine’s recovery—from traditional humanitarian aid to EU accession. These arrangements should build off existing EU standards where sensible and should be reviewed and updated at regular intervals to meet different needs at different stages of Ukraine’s recovery.

The MAF should be developed alongside the funding, support and coordination frameworks outlined above, incorporating input and agreement from the government and all bodies providing assistance. Ideally, the lead coordinator within the Ukrainian government and their international counterpart should be appointed early and involved in developing the MAF, as the framework will serve as the guiding document between the government and its partners.

8. Tie financing conditions to Ukraine’s long-term priorities

Financing conditionalities must be designed to support Ukraine’s recovery goals and aspirations in addition to meeting donors’ fiduciary and legal requirements. Poorly designed conditionalities can make finance access unclear, place undue pressure upon state systems and decouple national plans from budget implementation. While donor agencies will seek to impose conditionalities aimed at reducing corruption and fraud risks, conditionalities should not be binary “yes or no” funding decisions, as unrealistic conditionalities risk undermining recovery. Rather, they must recognize the difficult political trade-offs required to tackle entrenched corruption and should be crafted in a manner anchored in local reform agendas, not international partners’ domestic priorities. International partners will need to coordinate with the government and among themselves to avoid the risk of imposing contradictory reform requirements.

The simplest means of tying financing conditions to Ukraine’s long-term reform objectives would be to harmonize conditions with EU accession requirements. The Ukrainian people have signaled their clear desire to join the EU, meaning that the accession process would serve as a strong guidepost for Ukrainian reform. Conditionalities should possess harmonized reporting requirements and clear monitoring procedures that incorporate Ukraine’s strong civil society sector. These conditions should also seek to strengthen, not circumvent, the country’s domestic institutions through their direct integration into the domestic budgetary structure. The number and complexity of conditionalities should also vary by financing model and intended purpose (e.g., emergency response financing or wage bill support should impose fewer requirements).

Accountable channeling of finance for recovery and reconstruction

Accountability is at the heart of good governance. The development of a robust Ukrainian accountability system that ties promises made by the state to results—as rooted in the country’s budgeting and reporting systems—will be critical to Ukraine’s ability to deliver on the goals of reconstruction and seize the opportunity for long-term transformation. The consequence of failures in accountability systems is catastrophic corruption that undermines public confidence and limits the effectiveness of public spending for recovery and other development priorities, ultimately hampering economic and institutional development.

Building stronger, more effective institutions for reconstruction will require **engaging, financing and channeling assistance through Ukraine’s existing accountability systems**—rather than outsourcing responsibilities to external consultants and organizations. In practice, this means providing technical and financial assistance along key points of the country’s budget cycle while taking a **nuanced and politically aware approach to continued anti-corruption reform**. This reform process should be supported by **twining arrangements between European and Ukrainian anti-corruption bodies** to both oversee reconstruction and build the institutional capacity to prepare Ukraine for accession to the EU.

9. Support and disburse assistance through Ukraine’s existing accountability systems

Assisting in a way that reinforces Ukraine’s accountability systems and institutions rather than outsourcing responsibilities to external consultants and organizations is critical to ensuring a responsible, accountable and sustainable recovery in Ukraine. Despite significant progress in strengthening its public financial management systems since 2014, Ukraine requires further support to develop stronger multi-year budget frameworks, fiscal

strategies and financial gatekeeping that can reduce corruption and patronage in budget formulation, align Ukraine with European financial management standards and improve the overall accountability of the state. A common concern among the international community is that fiscal accountability and corruption constraints in Ukraine will undermine the delivery of assistance for recovery and reconstruction. While this is a founded concern, the right balance between good oversight and micromanagement needs to be struck throughout the policy and budget cycle as partners deliver assistance.

Thus, at all stages of the policy and budget cycle, Ukraine’s international partners should—when feasible—engage, support and disburse assistance through the country’s existing accountability systems. In practice, this means, international commitments and disbursements—operating within the coordinated financial architecture outlined above—should operate alongside the budget cycle. Trust fund financing can support general, on-budget recovery and reform programming managed by the national government as well as reconstruction assistance to regional governments and communities via Ukraine’s intergovernmental fiscal transfer system or direct disbursements and block grants (e.g., for housing). At the same time, large, one-off reconstruction projects (such as the repair of a dam or highway system) may be done off-budget and by international partners, as long as they are aligned with priority programs identified by Ukraine and can be accounted for by Ukrainians in a consolidated budget. This financing structure is recommended to drive the development of Ukrainian accountability and budget processes and institutions (without overwhelming local capacity), ensure the predictable availability of funds for core government functions, support recovery agilely when and where it is needed, and increase international partners’ confidence in the use of recovery funds.

10. Recognize and build upon past anti-corruption reforms for oversight during recovery

During reconstruction, Ukrainian policymakers and their international partners need to take a nuanced approach to reform with anti-corruption institutions, tools and processes best suited to different stages of recovery. This begins by recognizing the assets of past anti-corruption reform efforts—including the establishment of the National Anti-Corruption Bureau of Ukraine (NABU) and the Specialized Anti-Corruption Prosecutor’s Office (SAPO)—as well as opportunities presented by a post-war environment to push through reforms that clarify and cement their mandates. Continuing to bolster these institutions through technical and financial support while expanding their ability to oversee reconstruction through clear legal mandates and rules will be critical for protecting past gains and delivering accountable recovery.

Establishing clear legal mandates, processes and rules of the game for recovery oversight will be essential to strengthening Ukrainian anti-corruption capabilities and providing external monitoring needs. A preventative approach to tackling corruption during reconstruction is recommended, where Ukraine’s accountability system is supported and empowered to anticipate corruption pain points and set out clear policies and processes to strengthen oversight. While Ukraine’s oversight bodies have demonstrated capacity, each institution’s mandate is not always clearly delineated and the complexities of reconstruction oversight could further blur these distinctions. Ukraine will need to clarify the legal mandate of these organizations and reach an agreement with international partners on the roles, processes and schedules for regular reporting and auditing to set the expectations early for oversight.

Furthermore, arrangements between Ukrainian and European anti-corruption and oversight bodies should be established to increase the financing and capacity of local institutions to oversee reconstruction. The SAPO would continue to serve as a corruption investigation agency, perhaps partnering with the European Public Prosecutor’s Office to provide capacity-building and financial support. The NABU would also extend its corruption prevention role over reconstruction funding, partnering with an independent agency jointly supported and staffed by stakeholders from Ukraine and its international partners. This would be further underpinned by the budgetary audit work of the Accounting Chamber of Ukraine, which is already supported by the European Organisation of Supreme Audit Institutions (EUROSAI). Finally, recovery processes should be separately monitored by Ukrainian CSOs and supported by the European Union and other outside partners. This system—including both local institutions and CSOs supported by international partners—should simultaneously oversee recovery funding and gradually promote anti-corruption reform in Ukraine, with an end goal of harmonizing Ukrainian regulations with EU accession requirements.

Future reports from ISE will focus on key issues around the delivery and outcomes of reconstruction efforts in Ukraine, including:

- Effective leadership and communications to foster citizen trust and engagement
- Systems to implement reconstruction priorities and responsibilities alongside service delivery
- Governance capabilities and competencies for reconstruction
- Systems and policies to address the long-term human capital impacts of the conflict
- A security sector that reflects the post-war reality
- A revitalized economy that leverages local assets and mitigates market distortions
- Social cohesion and preventing the fracturing of society