



# Reconstructing and Reforming Ukraine

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RESEARCH



## ABSTRACT

Helping Ukraine to reconstruct and reform its economy is arguably the most important project for Europe this century. It will require extraordinary collaboration from within and outside of the country. We establish a set of principles that should guide these efforts, based on international and Ukraine's own experience. This experience also suggests key building blocks of a reform and reconstruction architecture that can help ensure that these principles are successfully applied. We assess the current institutional arrangements in this light and suggest adjustments that will increase the likelihood of success. The core of the argument is that the unfathomable choices involved in reconstruction and reform, including the use of donor resources, must be made by the Ukrainian people and its elected representatives, and the outcome must be owned by them.

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## 1. INTRODUCTION

Reconstructing Ukraine will possibly be the most important political project for Europe this century. It will require extraordinary collaboration from within and outside of the country. The complexity of the tasks and amounts of funds involved (World Bank estimates suggest that Ukrainian reconstruction will cost US\$411bn, which corresponds to 2.5 times the country's estimated GDP) go far beyond the capacity of existing international financial institutions and the amount of concessional development assistance available globally [1]. There are many past national reconstructions that provide invaluable guidance, but we must ensure to draw the right lessons from history.

The project is not only important for Europe, but also for the world. It could become an example of how the world can come together to reconstruct a country ravaged by war. Divisions over the responsibility for the damage done to Ukraine and to its people should not be allowed to interfere with the ambition to help the country to reconstruct and reform itself. Of course, there are other places in the world that should also receive such help, but Ukraine offers a unique opportunity to test the modern international system, and to learn for other efforts in the future. We must seek to achieve the broadest possible coalition behind this project.

An instinctive response would be to call for a Marshall Plan 2.0 [2, 3]. This mostly successful scheme, which saw the USA fund much of the reconstruction of Europe after World War II, may be an effective slogan for galvanising support, but this does not mean it is the right model for Ukraine. The Marshall Plan provided macroeconomic support to the physical rebuilding of countries with essentially sound institutions. In contrast, Ukraine requires root-and-branch reform of its entire economy.

Few potential contributors would be convinced to provide unconditional aid to post-war Ukraine, with any international funding likely resting on its commitment to reform. Making and guaranteeing such commitments should be the lead principle for those designing the reconstruction and reform architecture.

While the Marshall Plan may not be the perfect model for Ukraine, neither were the post-war occupation administrations in Germany and Japan. No one is seriously arguing a wholesale adoption of this approach, but many suggestions have elements of imposing institutions from the outside [2]. History is littered with failed attempts to change institutions from the outside [4]. Not even in completely failed states do we now believe in this approach [5]. And Ukraine is not a failed state. While it has some institutional fragilities, many parts – such as the central bank, the public procurement system ProZorro, and the gas monopoly Naftogaz – have been profoundly transformed and are functioning well. Ukrainian civil society is extremely well developed and responsive, as demonstrated in the war.

What must remain a focal point for Ukraine's builders is that reconstruction and reform remain entwined. They must be implemented under an integrated institutional architecture, one which unifies the domestic and foreign efforts to repair and reconstruct the country. The design and implementation of this framework must grow out of a process that is owned by the people to whom it will apply, given that it first requires making decisions about priorities and choices that no outsider could or should decide on. Second, the government must be able to take responsibility for any design flaws in the architecture, or any unintended consequences of the institutions created or modified to achieve reconstruction and reform.

The likelihood of success of the reform and of reconstruction efforts will be greatly enhanced by the EU accession process. The "EU dream" is a strong political anchor in Ukraine. The cumulative experience of Central and Eastern Europe and, more recently, Southeast Europe provides important guidance on the sequencing and complementarities of the different elements of accession. A hallmark of the accession process has been that while the EU framework creates a clear sense of direction, and sets out reasonably well-defined targets as well as incentives to reach them, the decisions how and when to achieve those targets are left to the countries.

This article establishes some basic principles for the combined reconstruction and reform effort and discusses the experiences from some previous reconstruction projects. It then proceeds to identify some elements of a viable reform architecture and a structure for donor coordination.

## 2. PRINCIPLES OF RECONSTRUCTION AND REFORM

Principles for reconstruction and reform in Ukraine have been discussed in multiple papers, including Gorodnichenko et al [3], German Marshall Fund [6] and Ukrainian Recovery Council [7]. These analyses highlight the importance of partnership, coordination, transparency, rule of law, democratic participation, multi-stakeholder engagement, inclusion, sustainability, alignment of goals, and accountability. Such principles apply to all cases of post-war and post-natural-disaster reconstruction [8] and link up with the Busan Principles of Aid Effectiveness [9].

The overriding principle for any reconstruction and reform is Ukrainian ownership. Only Ukraine can determine its future and define a vision of the post-war country it wants to build. For investment decisions to be undertaken efficiently and for reforms to stick, they must be viewed as legitimate by the citizenry. Aid will be dispensed most effectively when it is seen as consistent with Ukraine's own interests. Ownership should rest on broad domestic support achieved through inclusive and transparent consultations with local authorities, civil society, and business, while Ukrainian civil society offers interesting models for the involvement of citizenry (e.g., Center for Economic Strategy [10]).

A second important principle is that reconstruction and reforms that are designed to enhance both efficiency and growth must go hand in hand. Even while addressing urgent tasks of rebuilding, the government and donors should work to advance Ukraine's structural reform agenda. Reconstruction is an opportunity for Ukraine to leapfrog generations of technologies and should facilitate significant economic and institutional modernisation. The goal should be a post-war Ukraine that is structurally transformed to be more green, more inclusive, and more dynamic.

Institutional reform should be guided by and be consistent with European Union values, given that EU membership is the economic and political endpoint for Ukraine. The EU integration process provides an anchor for Ukraine's efforts to become a modern, democratic, prosperous country by aligning its incentives with those of Europe and ensuring sustained external support. Consequently, it serves as an important guide for the decision-makers and reduces the need for other conditionality. However, the EU path is also beholden to internal EU politics, which must not become an obstacle to reconstruction.

The EU accession process is associated with significant transfers of funds. First, there are pre-accession funds, and then all the resources available to members. These funds are particularly large for poorer members, and they can be used to leverage other funding from bilateral and multilateral financial institutions. Yet the most important financial flows – both portfolio and direct investments – will come from the private sector as risk premiums decrease. Improving the investment climate then becomes essential to attract private and institutional capital.

EU funds mostly come in the form of grants, but most other flows will use various financial instruments, including debt, guarantees, and equity, received from bilateral and multilateral donors and international organisations. It is important that in the end, a significant component of the money transfers are grants – a country devastated by war is unlikely to be able to service and repay additional debt, at least in the short term. Excessive reliance on loans will raise the risk of a debt solvency and will potentially distort investment decisions. The aim must be to design grant structures that are helpful and come with proper governance without undermining the ownership and incentives of Ukrainian decision-makers.

While providing grants has many advantages, the amounts needed to build the new Ukraine will far exceed available concessional resources globally, so solutions will have to be found to combine these grants with other financial instruments. Debt has the distinct advantage in that it disciplines the contracting parties while equity confers the risk on its owners – and both can potentially be traded. The problems associated with debt can be resolved through later restructurings or debt extensions; debt can also be linked to economic performance or to the delivery of important public goods, such as climate change mitigation or nature conservation and biodiversity.

Moreover, reconstruction cannot rely on the funds of governments and international organisations alone. The participation of private capital, for example, in the form of inward foreign direct investment and public-private partnerships, is essential. Such partnerships will convey not only money but also technologies and managerial expertise. Private flows will be particularly vulnerable to any remaining threats of war actions and are unlikely to come in large sums until a lasting peace has been achieved, but some foreign investors are continuing to commit capital at present, mainly in the parts of Ukraine less affected by the war.

The first stages in reconstruction are planning and institution-building, which can take place even under the threat of missiles and drones. Critical structural reforms also should not wait for the end of the war. Even while the war continues, Ukraine can strengthen market mechanisms, promote competitive market structures, and foster market development. The major players can start now to put in place the prerequisites for a comprehensive reconstruction. Some measures, for example, investing in a more decentralised energy infrastructure based on renewables, can also help to reduce the country's short-term vulnerability to military threats.

### 3. INTERNATIONAL RECONSTRUCTION EXPERIENCES

There have been previous national reconstruction efforts that were initiated or at least partially engineered by outsiders. At a very superficial level, two distinct approaches can be identified. First, there is the radical US approach, perhaps best symbolised by the efforts after World War II in Germany and Japan, but also in Iraq and Afghanistan. Within this approach, there is an emphasis on building institutions for democracy, rule of law, and human rights from scratch. Second, there is the more gradual European approach, which focuses on long-term change that build on existing institutions, often relying on the outside anchor of membership in the European Union.

The Marshall Plan contained elements of both, using massive transfers of financial resources for the post-war rebuilding of Europe. To administer the Marshall Plan, the US government created a self-standing agency, the Economic Cooperation Administration (ECA), with a hierarchical structure that clearly delineated responsibility and authority. The ECA administrator was the ultimate decision maker, situated at the top of a well-defined chain of command. It had a 600-employee regional office in Paris and missions of American government officials to advise and observe in each country receiving aid.

This structure contrasted with other post-World War II efforts to rebuild Europe – for example, the UN Relief and Rehabilitation Administration (UNRRA) where a lack of personnel and leadership as well as uncertain budgets plagued the program. UNRRA controlled resources unilaterally, and it often ignored local input. Gradually, UNRRA ramped up coordination with other organisations providing relief, and so became more effective.

The Marshall Plan's top-down, army-style organisation, differs from those used for subsequent US reconstruction efforts, and for reconstruction efforts more broadly. Some of these efforts, as detailed below, have been effective and efficient, leading to a swift and genuine recovery from disaster. Others have been bedeviled by poor organisation and consequently, insurmountable challenges.

In Iraq there was no single administrator with the power to resolve interdepartmental disputes, despite the efficacy of the ECA in Europe. Consequently, reconstruction was plagued by poor planning, weak oversight, poor coordination (if not rivalries) across agencies, weak security, poor involvement of locals, low capacity to absorb aid, and understaffing. Similar problems afflicted the recovery of Puerto Rico after Hurricane Maria in 2017. Four years after the hurricane, Puerto Rico still lacked electricity and many homes and buildings still had only temporary roof covers in place. As of the summer 2021, only US\$18.6 billion of an allocated US\$64 billion had been spent. Among the reasons for this were red tape (specifically, extensive bureaucracy at the Federal Emergency Mitigation Agency (FEMA) responsible for reconstruction), a debt overhang that discouraged new investment, the non-transparent use of funds, and the fact that Puerto Rico's government had little engagement with or influence in the process.

Pakistan's experience of reconstruction after the 2005 earthquake is more positive [11]. The scale of the natural disaster was such that line ministries and local authorities lacked the capacity to effectively organise a comprehensive reconstruction effort. That effort required extensive

coordination and a considerable degree of centralisation if it was to deliver the key objectives of mobilising funding and external aid, building back better (especially in terms of seismic safety), achieving a rapid recovery, allocating funding efficiently, enhancing sustainability, and achieving inclusivity. The government therefore established a special authority: the Earthquake Reconstruction and Rehabilitation Agency (ERRA). This new body had several desirable features. First, it was headed by the prime minister, which provided strong political backing and a clear sense of ownership. ERRA had the necessary centralisation to achieve uniform policies and standards, and a sustained flow of funding. At the same time, it involved the international community in a variety of roles (providing technical expertise, oversight, etc.).

Second, the government developed a plan for reconstruction to be undertaken quickly (ERRA itself was launched only three weeks after the earthquake). This was instrumental in securing external funding and laying the groundwork by, for example, providing early and credible damage assessment. ERRA developed a set of sectoral policies and priorities to concentrate resources on key programs. Early planning at the national level was instrumental in achieving a holistic approach and the prioritisation necessary for cluster projects and sustainable recovery.

Third, although a centralised agency oversaw and coordinated aid, implementation was decentralised, employing the subsidiarity principle. Local authorities could approve and implement projects up to a specified price tag. Larger projects involved regional governments, while the largest projects were determined by the central authorities. This tiered approach enhanced ownership by, *inter alia*, local governments and improved information sharing and coordination. To ensure that funds were not diverted, project results were reported to the relevant steering committees, and funding was provided in tranches. ERRA's organisational structure emphasised horizontal linkages to provide forums for dialogue between stakeholders.

Fourth, to ensure sustained support of donors, ERRA allocated projects (or sectors) to specific donors. This attached donors to specific responsibilities and provided an opportunity for donors to report achievements to their stakeholders. ERRA ran monthly meetings of donors to cultivate relationships and prevent donor fatigue. Overall, ERRA attracted US\$2.5 billion in grants and US\$4 billion in loans. Although Saudi Arabia, the United States, China, Iran, the United Arab Emirates, and development banks accounted for the bulk of these funds, ERRA established a dedicated window to coordinate funding from smaller donors. This approach provided a single interlocutor for potential donors, lightening the burden of attracting and managing aid.

Fifth, ERRA had a strong legal mandate and sunset provisions. The former was necessary to overcome inertia and bureaucratic bottlenecks, while the latter were needed to ensure that ERRA did not turn into a new bureaucracy, substituting for line ministries and other authorities. ERRA also provided much needed data gathering and data processing to evaluate progress and to strengthen accountability. Importantly, ERRA only financed construction of seismically safe houses, consistent with the 'build back better' principle.

The reconstruction of Sri Lanka after the 2004 tsunami provides similar lessons. Sri Lanka established a dedicated reconstruction agency with a clear structure. Its Taskforce for Rebuilding the Nation (TRN) was composed of high-level officials and businessmen; it was structured to minimise red tape and ramp up quickly. Sri Lanka pursued policies consistent with the 'build back better' principle: new houses were built according to higher standards; new regulations on construction, fishing and tourism in coastal areas were introduced; and education programs were developed on what to do in the event of disasters. However, a lack of a well-planned land-use policy and of construction guidance resulted in a somewhat chaotic process of land allocation and a varying quality of construction, while over-reliance on local governments created disparities between regions. Further, the reconstruction agency was dismantled too early, which prevented institutionalisation of its experience and knowledge transfer.

Finally, Indonesia's recovery from the 2004 earthquake and tsunami was highly effective, thanks to the Agency for Rehabilitation and Reconstruction of Aceh and Nias (BRR), which was established in early 2005. The BRR operated for four years, with a mandate directly from the constitution of Indonesia to restore livelihoods and strengthen communities in Aceh and Nias. It designed and oversaw a coordinated, community-driven reconstruction and development program that was implemented according to the highest professional standards. This temporary but powerful agency was given full authority to manage all aspects of the tsunami recovery in Aceh on behalf of the central government, which allowed for a much smoother coordination

process, devoid of any potential inter-ministry politics and bureaucracy. A coordinated approach to planning, fundraising and implementation ensured that the reconstruction program was effective, duplication was minimised, and donor funds were used optimally.

#### 4. UKRAINIAN RECONSTRUCTION AND REFORM ARCHITECTURE

Ukraine needs both reconstruction and root-and-branch reform, building on the achievements of previous efforts, but also recognising the failures and the remaining challenges. Fundamental choices about what and how to rebuild and reform, and in what order, will have to come out of an inclusive domestic political process in which all domestic stakeholders are adequately represented and where decisions are owned by the Ukrainian population. The country needs an integrated architecture for both reconstruction and reform firmly rooted in the democratically elected institutions.

Yet to succeed, a reconstruction effort will require external support of extraordinary magnitude. Contributors will need to be reassured that the resources they provide will be used in an efficient, effective, and transparent way and, in the case of loans, that they will be repaid. This will have to be achieved under time pressure, as the expectations of citizens will be high after the sacrifices incurred. “Donor fatigue” is also likely to set in as the memories of the war fade away among external contributors.

Any reconstruction and reform architecture must balance these two objectives. This is not an unusual ambition for any rebuilding program, but what makes the Ukrainian situation stand out is the scale of the challenge and its geopolitical significance. The process has necessarily begun in the middle of a war and – once outright hostilities have ceased sufficiently to scale up reconstruction – may have to accommodate the risk of future military disruptions and sabotage. The challenge to create a sense of local ownership with an ongoing war, and while more than 15 million citizens are displaced internally or abroad, should not be underestimated.

So far, the Ukrainian population has demonstrated remarkable resilience and ingenuity, and civil society has responded in extraordinary ways. Every effort must be made to reach out to the dispersed community of organisations to canvas and to consult on ideas and concrete proposals. The hope for Ukraine is that the groundswell of community activity and acts of solidarity can, in due course, be channeled into the restructuring of the war-wrecked Ukrainian economy and reforming its economic and political system.

Like any country trying to reform with external support, there is a historic context of previous reform attempts and already entrenched interests. The war experience has provided a jolt to established patterns and has shifted relative positions of stakeholders, but preexisting obstacles to reform are unlikely to have gone away completely, and new special interests will emerge from the war experience and in the reconstruction effort. Sustaining the reform momentum will require maintaining the broad support internally, and also externally. Designing a robust reform architecture will be critical.

After the 2014 Maidan Revolution, Ukraine had an interesting experiment in how to build a domestic reform architecture. A gathering of more than 200 Ukrainians representing different parts of society met for three days in July 2014 at a time when the country did not have a democratically legitimate legislator and found itself thrust into a war with Russia. Among other elements, the group came in behind a proposal for a coordination body generated by reformers inside the government. This was later supported by the country leadership, which established a National Reform Council (NRC). This was staffed by a hundred reform-oriented civil servants in different ministries trained under the EU-financed Ukraine Reforms Architecture (URA) program implemented by the EBRD.

The NRC built up a dialogue platform that included representatives from all relevant stakeholders: economic officers of the President’s administration; economic fields ministers (economy, finance, infrastructure, agriculture); the National Bank governor; members of the economic committees and heads of the coalition parties of the Parliament (opposition party leaders didn’t participate); representatives of the key business associations; and representatives of the civil society. Considerable donor resources for technical assistance were channeled to support a Secretariat that was supported by at least one or two people of its project implementation unit in each of the line ministries.

The NRC was envisaged to become a platform to present and to discuss the key reforms Ukraine needed with the main stakeholders. As a result of the dialogue, there was a general agreement to support the reform through different implementation stages. They agreed on the concept of the reform, turned it into legislation approved by the Parliament, supported the roll-out and created the feedback loop to evaluate its results.

Indeed, the NRC was important in 2014–2016. All the major reforms within the financial and fiscal sectors, energy sector, public procurement, health, and educational reform, etc. were discussed at the NRC meetings every three weeks. Part of the meetings were televised. The responsible minister was tasked with presenting his or her vision, and the measures planned to achieve the goals were set out. From 2017 onwards, the Council was less useful – the country had run out of steam for reform.

In April 2022, just two months after the full-scale invasion, the Ukrainian government created a similar institution – the National Recovery Council (also NRC). Unfortunately, the new institution never became operational as initial management was weak and got dragged into political infighting. These initial mistakes do not mean that the idea of a National Recovery Council was wrong. Times are different today and the magnitude and urgency of action even greater, but the experience of the National Reform Council should become an important element of a new state-of-the-art inclusive reconstruction and reform architecture that also integrates experiences from other parts of the world.

## 5. DONOR COORDINATION

The massive external flows necessary to build the new Ukraine will require massive coordination. Several proposals have suggested the creation of a new agency within the EU for this purpose. The magnitude and complexity of administering EU support to the Ukrainian reconstruction and reform effort might require the creation of a new agency inside the EU, but this must not be confused with the arrangements needed to coordinate all of the country's external donors and lenders. Accumulated post-WWII development experience, manifested in the Busan Principles for aid effectiveness, emphatically states that donor coordination will only work when owned by the recipient country. Thinking has recently coalesced around 'country platforms', which would bring together all major stakeholders to ensure that financing and associated conditionality are internally consistent and in line with the government policies [12, 13].

Country platforms were originally conceived by a G20-appointed group as tools for the coordination of international financial institutions, linking them in an overarching system to increase their efficiency and effectiveness [12]. But regardless of the strength of any overarching system, it is in the individual recipient country where the system will be ultimately tested. The parties to a country platform would agree to meet certain common core standards (for a set of potential common standards, see the Eminent Persons Group (EPG) Report [12]) to help coordinate efforts and facilitate collaboration, but also to reduce the scope for corruption and other governance problems.

In a first effort to coordinate outside stakeholders for the reconstruction of Ukraine, the leaders of the key International Financial Institutions (IFIs) – the International Monetary Fund (IMF), the World Bank, the European Bank for Reconstruction and Development (EBRD), and the European Investment Bank (EIB) – and the European Commission established a temporary coordination mechanism during the 2022 IMF-WBG Spring meetings in Washington D.C. The country representatives of these organisations have been organising EU-IFI coordination meetings to discuss Ukrainian short-term financing needs, the first important stage for the reconstruction. While these meetings have been instrumental for sharing information and coordinating operations, they never envisaged more strategic discussions.

On this front, the first major strategic coordination platform for Ukraine was created at the end of 2022 when the G7 established a multi-agency Donor Coordination Platform. This platform aimed to support Ukraine's immediate financing needs, and its future economic recovery and reconstruction. The platform has a Secretariat with two seats: in Brussels, within the European Commission, and in Ukraine – within the Government. Since being established, it has worked with Ukrainian authorities to define, prioritise, and sequence strategic needs. It envisages the coordination of international efforts to support a sustainable, resilient, inclusive, and green

economic recovery which enhances strong democratic institutions, rule of law, and anti-corruption measures.

During the G7 Leaders' Summit in Hiroshima, Japan in April 2023, the Development Finance Institutions (DFIs) of the G7 countries and the EBRD agreed to establish the Ukraine Investment Platform. This platform focuses on the private sector and aims to strengthen cooperation and promote information exchange on the question of co-financing. It will also consider the needs of neighboring countries affected by the war. The parties, in close consultation with respective governments, will address the lack of financial capacity, especially in the private sector, and contribute to the recovery of the economy, industry and infrastructure, and to the reconstruction of people's lives.

Another EU coordination mechanism (the European Development Finance Institutions coordination group (EDFI)) has also been established to coordinate a further part of international aid to Ukraine. EDFI brings together European DFIs that foster private sector finance in countries outside the EU. This group has been a good mechanism of coordination, but with limited impact on recovery and reconstruction: many of the institutions have not previously been active in Ukraine, while their financial firepower is limited. Instead, EDFI members are likely to focus on technical assistance to existing clients, disbursing grants, restructuring portfolios, and offering forbearance, rather than providing strategic guidelines for the post-war reconstruction.

During the Ukraine Recovery Conference in London in June 2023, the EBRD, members of EDFI and other G7 Development Finance Institutions (DFIs) signed a Memorandum of Understanding (MoU) that provides a framework for collaboration and co-investments in Ukraine, with a primary focus on the private sector. With the addition of new participants, the total number of signatories now stands at 19. This welcome development should help promote coordination among official financiers.

The question is though whether any of these arrangements fully respect the leading principle for the governance of country platforms, i.e., genuine country ownership. For this to be achieved, the arrangements must be integrated into domestic economic decision-making and subordinated to the overall priorities of the government and to the democratic governance of the country. A good example for the country platform to follow is the Egypt's Nexus of Water Food and Energy (NWFE) platform, in which the Egyptian government displays a pipeline of renewables projects, mainly solar and wind, and its program for phasing out fossil fuel assets. The participating international financial institutions, which include EBRD, EIB and Asian Infrastructure Investment Bank (AIIB), and national development finance institutions, such as Kreditanstalt für Wiederaufbau (KfW), are then invited to collaborate in the financing of these projects.

Access to grants and other forms of concessional finance will be an essential feature of the Ukrainian reconstruction effort. The NWFE platform has attracted concessional resources from the US, for the retraining and potential early retirement of workers connected to fossil assets; and from Germany, in the form of performance-linked debt related to fulfillment of climate policy commitments [14]. Interestingly, the platform has also helped to bring in equity capital in the form of foreign direct investment in the production of intermediate goods for renewables. Attracting parts of the renewables value chain should also be an important objective for the design of the reconstruction effort in Ukraine.

The country platform concept is now also being used by the G7 in the form of so-called JET-P (Just Economic Transformation Platforms) to implement climate policies in collaboration with individual countries in the emerging and developing world. The first one was a collaboration between the UK and the US in South Africa from 2021. Early lessons from this exercise illustrates several important challenges facing Ukrainian reconstruction, e.g., differing perceptions of what "just" means, what "transformation" trajectory is most desirable, and the lack of follow-through on international promises. The South African example is now being followed with collaborations in Vietnam and Indonesia, and a further platform is being considered in India. There should be rich opportunities to learn lessons for Ukrainian reconstruction and reform from these experiments in donor coordination on climate policy.



## 6. IMPLEMENTATION

To manage the herculean task of implementing the reconstruction, the proper institutional arrangements must be prepared. Ukraine needs to put in place the organisational structures, policies and procedures to plan, manage and implement recovery. One model is that suggested by Eichengreen and Rashkovan, who propose creating a specialised, self-standing agency led by the European Commission, but with majority of its staff in Ukraine, and with management representation from each non-European G7 country [15]. According to their view, such an agency should have clear lines of command and independence in operations, oversight by donors, and civil society should be provided by a supervisory board and by the publication of detailed information on reconstruction initiatives and projects. The agency should communicate regularly with donors, local governments, Non-Governmental Organisations (NGOs), businesses and other stakeholders to ensure that the reconstruction takes into account the interests of multiple stakeholders.

While we support Eichengreen and Rashkovan's overarching principles and broad objectives, and agree that IFIs and foreign donors have an important role to play in the implementation of the reconstruction and reform program, they cannot replace domestic institutions. Rather, the reconstruction effort should be used to strengthen existing institutions and to stimulate the creation of the new ones. The Ukrainian government (in a broad sense at all levels) should therefore also build an implementation framework that will formulate and implement policies, and will understand how the recovery will be managed and governed.

Ukraine has already taken the first steps. In December 2022, the Parliament created a Ministry for Restoration – a government body responsible for policies in the field of physical infrastructural recovery, and for setting policies for the restoration process. A new Vice Prime Minister leads this ministry. In January 2023, the Government also created the State Agency for Restoration (Restoration Agency), which will be responsible for the effective and transparent implementation of the country's rapid recovery and post-war reconstruction projects.

The Restoration Agency is a merger of the State Road Agency (Ukravtodor) and the State Agency for Infrastructure Projects (Ukrinfraproyekt). While the latter had delivered several large-scale construction projects that involved both budgetary and external financing, its expertise was mostly lost after the Euro2012 football tournament. The Restoration Agency has inherited a strong capacity in road construction, built by Ukravtodor in partnership with international financial institutions over the past three years. Building on this capacity should help the agency gain credibility among key stakeholders.

An important question for the Restoration Agency to address during the Ukrainian reconstruction is how to reinforce the decentralisation of decision-making initiated in earlier Ukrainian reform efforts after the Revolution of Dignity? Local authorities have been merged and given stronger mandates, but the war will limit options to finance themselves. One way to strengthen their ability to raise resources would be to pool their funding efforts, e.g., the Swedish KommunInvest model or the Bulgarian version implemented together with the EBRD to support municipalities in infrastructure development.

But “to make reconstruction happen”, the implementation engine of the Ministry for Restoration and Restoration Agency must learn from the good and bad lessons available from the experience of similar agencies created to tackle post-war or post-natural disasters recoveries: (ECA, BRR, ERRA, CNO, CERA, GREPOC, GSDMA, ONEMI, FAAARO, FEMA, etc.) and to avoid the mistakes in principles and design [16, 17]. One important lesson is the necessity of creating a separate project implementation unit (PiU) that can help foreign experts to support reconstruction. The PiU of the National Reform Council had an important role in the implementation of reforms.

Finally, a designated national development bank could help to raise financing for the efforts of the Restoration Agency, serving as a credible co-financing partner for multilateral and bilateral institutions. The German development finance institution, KfW, originally established to promote Germany's reconstruction after WWII, is an interesting model. Alternatively, the government could establish a dedicated development bank owned by the multilateral and bilateral development banks involved in the reconstruction: EBRD, EIB, KfW, IFC and Ukraine. Such an institution could be focused solely on the reconstruction of Ukraine (just as EBRD was

originally set up to support the market transition of the region), and would benefit from the capital, technologies, project expertise and governance of the European institutions, but would not be overburdened with its bureaucracy and geopolitical limitations.

## 7. LESSONS FOR UKRAINE

Starting from a set of principles for reconstruction and reform, we examined previous international experiences and some of Ukraine's own attempts to establish a reform architecture, including the most recent changes in the ministerial set-up and the establishment of a reconstruction agency. In this final section, we summarise the conclusions for Ukraine's reconstruction and reform efforts and point to potential improvements to better meet the objectives of the government.

The EU accession process and the conditionality involved in financing the restructuring effort will point the way, but the Ukrainian people must do the hard work of rebuilding trust in the political system and cleaning out the oligarchic structures in the economy. Evidence from previous enlargements of the European Union suggests that bureaucratic independence and judicial capacity are at the core of the institutional reforms supported by the accession process. Building these elements must also be central to Ukraine's reconstruction and reform architecture.

The discussion so far suggests that the reconstruction architecture should be designed along the following lines:

- The reconstruction architecture should be based on a country platform, along the principles outlined in the EPG Report – the core principle being the strong ownership by the Ukrainian government. It should generate the vision, strategy and priority list of projects based on its superior local knowledge. Reconstruction will require an all-government approach with the newly formed the Ministry for Communities, Territories and Infrastructure Development of Ukraine (Ministry for Restoration) as the natural hub for internal coordination in Ukraine (a merger of two previous ministries [18]).
- The reconstruction effort needs to be plugged into an inclusive reform architecture that involves all the branches of the Ukrainian government, including the parliament and the president's office, but also civil society and other internal stakeholders. The National Reform Council from 2014 could serve as a model for such an architecture.
- The country platform should have a reconstruction agency associated with it to ensure proper preparation and implementation of decisions taken by the stakeholders responsible for the platform. The recently formed State Agency for Reconstruction and Development of Infrastructure of Ukraine [19] has some of the core features, but the new agency will have to be strengthened along several dimensions and should be formally tied to the country platform.
- The Multi-Agency Donor Coordination Platform [20] launched in January 2023, is a step in the right direction, but it does not yet fully reflect the principles of proper country ownership and inclusiveness. It can still fill a useful role for internal EU coordination, but to qualify as a proper country platform it should be re-weighted in favor of the Ukrainian side and provide more space for non-EU stakeholders.
- The Reconstruction Agency should coordinate closely with domestic stakeholders, most importantly the Ukrainian government at multiple levels, but also businesses and civil society, both before and after projects are implemented. It should organise regular donor conferences; and collect and disseminate pertinent data on reconstruction projects to ensure accountability and learning, working with internationally recognised accounting firms with offices in Ukraine.
- Ultimately, of course, the entire financial system of Ukraine will have to be involved. Institutional innovation could strengthen the current system which has been thoroughly reformed and has held up well during the war.
- A national development bank can serve as a credible co-financing partner for multilateral and bilateral institutions. There are several interesting models to explore and special attention should be paid to the need to strengthen the finances and implementation capacity of local authorities.

- As the endgame for Ukraine is membership of the EU, the European Commission will have to play an important role in the coordination within the European institutions and among member states. The newly created multi-agency mechanism can help EU's own coordination efforts, but it cannot be the ultimate coordinator of all assistance. It would undermine the incentives of other contributors and, most importantly, of the Ukrainian government itself.
- The international partners may want to establish a multi-donor trust fund (MDTF) to pool donor resources, as the World Bank has done with the Ukraine Relief, Recovery and Reconstruction and Reform Trust Fund [21]. If established, such a fund should have a certain independence and should be run by a managing director selected on a competitive basis with experience of working closely with the European Commission. It would be natural for such a fund to also have representation for the intended recipient.
- Effective functioning of the MDTF will require not only inclusive representation of key multilateral and bilateral donors but also strong political backing for coordination, technical expertise, and local knowledge via on-the-ground representation in Ukraine (via embassies and local offices of international financial institutions). Technical assistance should be organised as a permanent task force consisting of high-level experts (perhaps seconded from participating institutions).
- Overall, the reconstruction effort will require massive recruitment and continuous training of staff. The positions in the core institutions of a Ukrainian reconstruction and reform architecture should be part of the country's future civil service reforms. The recruited staff will form the future civil service of the country; secondment programs with ministries and agencies in countries participating in the effort could help to enhance state capacity in the country.

With all these elements, the reconstruction and reform of Ukraine could become an important “proof of concept” for similar efforts in other parts of the world. The staff involved could be used to transfer experience and work with representatives of recipient countries to adjust the model to fit local conditions and the regional context. The lessons could be applied not only to post-conflict situations but also to other states with deep fragilities, and to achieve broader development objectives in emerging and developing economies more generally.

## COMPETING INTERESTS

The authors have no competing interests to declare.

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