

Donor coordination for Ukraine's reconstruction must ensure transparency, environmental standards and public participation



Photo: Canva

In May 2022, the European Commission proposed the idea of establishing a reconstruction platform for Ukraine to coordinate support from international financial institutions and partners. In June 2022, the European Council awarded Ukraine EU membership candidate status.

Since then, there have been significant developments, notably a conceptual change to the proposed 'RebuildUkraine' reconstruction plan. Following a G7 initiative, the Multi-agency Donor Coordination Platform for Ukraine was launched in January 2023 to support Ukraine's repair, recovery and reconstruction process. The Platform's Steering Committee is composed of high-level officials from Ukraine, the EU, G7 countries, the European Investment Bank, the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund and the World Bank. The Platform's Secretariat is based in Brussels (hosted by the

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European Commission) and the operational delivery unit is in Kyiv (hosted by the government of Ukraine through its Agency for Restoration and Infrastructure Projects).

The EBRD in 2022

The EBRD has been proactive in supporting Ukraine in times of need, keeping the country and its existing clients afloat. However, in most cases, the Bank has failed to apply its own governance policy standards, such as those related to the transparency of information: information on EBRD financing in Ukraine in 2022 has been either hard to find or published in an untimely manner. While martial law and wartime restrictions on EBRD operations in Ukraine require the use of policy derogations, we believe they must not be applied to projects related to Ukraine's recovery.

The EBRD has previously applied derogations in its policies on information disclosure and public consultations to fast-track dubious investments. In 2022, under its Resilience and Livelihoods Framework,¹ the Bank used facility-level decision-making to approve a controversial USD 90 million loan to Ukrainian agribusiness giant Myronivsky Hliboproduct,² which is currently the subject of a compliance review by the Bank's Independent Project Accountability Mechanism (IPAM). This loan was not the only one granted to MHP in 2022, with an initial USD 24 million approved in May of the same year.

It is important to ensure that the reconstruction of destroyed and damaged cities meets high standards of sustainability, attracts modern technologies, is informed by local solutions and involves local residents in planning and reconstruction efforts. The EBRD should consider expanding its flagship EBRD Green Cities programme to support reconstruction projects focused on smaller cities and communities (*hromadas*) and to empower municipalities to meet environmental requirements.

The EBRD's involvement in Russia

The EBRD did not finance any projects in Russia after the start of the war in Ukraine in 2014. In 2022, the Board of Governors decided to suspend the access of Russia and Belarus to the Bank's resources. Confusingly, however, in response to a letter from Bankwatch, the Bank stated that the Agreement Establishing the EBRD prevents it from restricting Russian companies' participation in procurement under EBRD-supported projects.

The Bank also indicated that it saw no problem in lending to subsidiaries of international banks operating in Russia as long as those entities are not sanctioned and the loans arrive in branches outside Russia and Belarus. Raiffeisen Bank, UniCredit, Intesa Sanpaolo, OTP and ING all continue to operate in Russia, buying time in the hope of either restoring their business or finding a way to leave without losing out financially. To make matters worse, all of the above financial institutions are EBRD clients that have received EBRD loans over the last year. In effect, they are being given a clear signal by a publicly funded financial institution that working in Russia has no impact on their business. These companies must be told that their presence in Russia is deeply problematic and that it is time to leave, no matter what the cost.

¹ European Bank for Reconstruction and Development, [Resilience and Livelihoods Framework](#), *European Bank for Reconstruction and Development*, accessed 5 May 2023.

² European Bank for Reconstruction and Development, [RLF - MHP Sunflower](#), *European Bank for Reconstruction and Development*, accessed 5 May 2022.

Broader participation in shaping national recovery plans

The Ukrainian government established the National Council for the Recovery of Ukraine from the War to prepare for the country's post-war recovery and development up to 2032. Alarmingly, though, the first national recovery plans – presented in early July 2022 in Lugano, Switzerland – lacked priorities, offered no holistic vision for the country's development and made no provision for inclusive, bottom-up participation. Additionally, crucial regional reconstruction plans have yet to be developed.

But these are not the only recovery plans that have bypassed public engagement. The second Rapid Damage and Needs Assessment (RDNA2),³ conducted jointly by the World Bank, the Government of Ukraine, the European Union and the United Nations, lays out a roadmap for financing the recovery process in Ukraine. Yet this key report on the priority needs of Ukraine was compiled without consulting civil society.

While this may be, to some degree, understandable during unprecedented times such as these, medium- and long-term planning has to incorporate the wider views of local communities and stakeholders, whose input is integral to Ukraine's reconstruction plan. Based on lessons learned from the post-war reconstructions⁴ in Bosnia and Herzegovina and Georgia, the importance of local ownership and trust in this process cannot be overestimated.

Transparency

Building on the success of the state's e-procurement platform ProZorro, a new digital tool for Ukraine's reconstruction is being developed. The Digital Restoration Ecosystem for Accountable Management (DREAM) is a state-operated digital system that allows control of every stage of a project lifecycle: from registering damage and destruction to obtaining financing, conducting procurement and construction work, and putting assets into operation. A minimal viable product will be presented for the first time at the forthcoming Ukraine Recovery Conference in London on 21 and 22 June 2023. DREAM is being developed by the Ministry for Communities, Territories and Infrastructure Development of Ukraine in partnership with the Open Contracting Partnership, Better Regulation Delivery Office (BRDO), and the RISE Ukraine Coalition with financial support from the government of the United Kingdom.

As of May 2023, DREAM does not include safeguards to avoid unsustainable and 'grey' reconstruction. Additionally, the procurement system in place prioritises the cheapest tender option over more energy-efficient or cleaner technology. A digital project management system is currently being created to track completely ruined and partially damaged buildings and infrastructure. But how can it reconcile the principle of 'build back better' with the urge for urgent reconstruction? To strike the right balance, DREAM must incorporate the best practices of the International Aid Transparency Initiative (IATI) and integrate environmental and energy efficiency provisions.

³ World Bank, Government of Ukraine, [European Union, United Nations, Rapid Damage and Needs Assessment](#), World Bank Group, March 2023.

⁴ CEE Bankwatch Network, [The reconstruction of Ukraine: lessons from the post-war recovery in Bosnia and Herzegovina and Georgia](#), CEE Bankwatch Network, 14 April 2023.

Dialogue with civil society organisations

Ukrainian civil society organisations have seen some success in establishing a flow of information from Brussels to Ukraine involving regular communication with EU decision makers. In January 2023, Bankwatch launched the first in a series of monthly meetings between the Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR) and civil society organisations with the aim of improving the exchange of information between DG NEAR units and Ukrainian and international bodies. The next step is to allow civil society to participate in the Steering Committee of the Multi-agency Donor Coordination Platform for Ukraine.

Green recovery and reconstruction

Ukrainian civil society organisations have developed ‘green principles’⁵ to guide the reconstruction according to the sustainability criteria in the Lugano Declaration.⁶ However, these proposals and commitments must translate into applicable measures, plans and financing criteria to support the current emergency restoration period and the eventual complete restoration of Ukraine.

Since the start of Russia’s full-scale invasion, the implementation of key environmental reforms has mostly been put on hold in Ukraine. The European Commission’s analytical report,⁷ published in February 2023, detailed the scope of future enlargement work, including a modest assessment of the environmental and climate sectors, and, in particular, the need to expedite progress to align with EU acquis in the context of the European Green Deal. The Commission also organised a collection of Ukrainian civil society contributions for its new report on enlargement progress to be published in October this year. Ukrainian civil society organisations and coalitions submitted comments⁸ on climate change, horizontal environmental legislation, air pollution, the Water Framework Directive, biodiversity, industrial pollution, energy, renewable energy sources, energy efficiency and nuclear energy.

In 2022, the parliament of Ukraine adopted the Law of Ukraine on Waste Management and the Law of Ukraine on the National Pollutant Release and Transfer Register. These are steps in the right direction. However, other reforms in line with the European Green Deal, which are crucial for Ukraine’s green reconstruction, such as the law on Emerald sites and pollution prevention and control, have been suspended. Additionally, martial law has significantly limited access to information and the availability of public participation tools, which are key for the effective work of civil society and for civic engagement in environmental impact assessment (EIA) and strategic environmental assessment (SEA) procedures.

According to the adopted amendments, reconstruction work during the martial law and reconstruction periods will not be subject to EIAs. Similarly, SEAs will not be applicable to recovery plans adopted by regions and territorial communities. This situation threatens the proper implementation of the EU’s horizontal legislation on the environment, particularly its EIA and SEA directives. In practice, until the terms

⁵ Ecoaction, [Analysis of Ukraine’s Post-War Recovery Plan Blueprint and Ecoaction’s Recommendations](#), Ecoaction, 15 July 2022.

⁶ Ukraine Recovery Conference, [Outcome Document of the Ukraine Recovery Conference URC2022 ‘Lugano Declaration’](#), Ukraine Recovery Conference, 4-5 July 2022.

⁷ European Commission, [Analytical Report following the Communication from the Commission to the European Parliament, the European Council and the Council](#), European Commission, 1 February 2023.

⁸ Ecoaction, [Comments on the EU reform implementation in Environment, Climate Change and Energy](#), Ecoaction, 27 April 2023.

‘reconstruction period’ and ‘recovery plans’ are legally defined, there will be no streamlined approach, no proper planning of large infrastructure projects and no assessment of environmental impacts.

Although this is understandable in a time of war, it will be important to have safeguarding procedures in place by the time major reconstruction projects are implemented. Should the government delay the process of restoring environmental legislation provisions, international donors must prioritise EU safeguards to serve the long-term public interest. Environmental and social impact assessments, energy efficiency indicators and evaluations of client capacity and track records should be maintained to prevent future negative impacts on post-war reconstruction.

Coordination and standards

The Multi-agency Donor Coordination Platform for Ukraine was created to coordinate international support. Considering that the platform will involve the collaboration of the government of Ukraine, the EU, G7 members and international financial institutions, the platform’s secretariat in Brussels and Kyiv will need to ensure a smooth division of labour between different partners, avoid duplication and promote synergies when co-financing relevant projects. At the same time, it is important to ensure that the Platform not only brings donors together, but also sets common rules and standards on sustainability, transparency and accountability.

Bankwatch views Ukraine’s reconstruction to be in line with the European Green Deal and Paris Agreement. Going forward, we recommend that financial flows are properly considered, and that climate milestones and targets are included in the financial mechanisms being developed for Ukraine, such as in the EU’s proposed ‘RebuildUkraine’ Facility. According to the EU cohesion policy’s⁹ the European Regional Development Fund and the Cohesion Fund must respectively devote 30 per cent and 37 per cent of their budgets to climate objectives. To be eligible for funds under the Recovery and Resilience Facility, each recovery plan must earmark a minimum of 37 per cent of its budget for green transition.

To ensure these targets are met, it would be beneficial to establish a memorandum of understanding on donor coordination, sustainability and climate criteria, transparency and accountability that acknowledges the unprecedented challenges of rebuilding and supporting Ukraine on its European path.

Recommendations

In order to improve the decision-making architecture and transparency of the platform, the following recommendations should be considered and reflected in its upcoming work. This is particularly relevant for the EBRD in its capacity as a member of the platform’s steering committee and as a representative on the advisory board of Ukraine’s National Recovery Council.

As a member of the steering committee of the Multi-agency Donor Coordination Platform for Ukraine, the EBRD should:

- 1) consult with a broad circle of civil society organisations and experts on its work to ensure accountability and transparency, wider participation in decision-making and public scrutiny of the initiative;

⁹ CEE Bankwatch Network, [Applying best practices from EU funds to the reconstruction of Ukraine](#), CEE Bankwatch Network, 20 December 2022.

- 2) launch a memorandum of understanding on donor coordination, transparency and accountability that aligns and unifies the standards underpinning the reconstruction.

As a financier of Ukraine, the EBRD should:

- 3) establish inclusive dialogue with interested parties on the Bank's proposals, especially given that financing for Ukraine is currently not guided by any national strategy;
- 4) consider the immediate needs of, and wider impacts on, regions and municipalities when implementing Bank projects, including ensuring that timely financing is available for smaller municipalities.

As a major regional lender, the EBRD should:

- 5) work with corporate clients and commercial banking groups to facilitate a rapid exit from the Russian market.