

International financial support for Ukraine's recovery



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On the reconstruction front line:

Ukrainian municipalities and the funding landscape

Introduction of research series

Russia's war in Ukraine is having a devastating impact on the population and development of the country. Decentralisation reforms launched in 2014 have enabled Ukrainian communities¹ to remain resilient and promptly respond to the challenges of war. However, no community has been untouched.

While some have suffered huge loss of life and significant damage to infrastructure, others have had to provide internally displaced persons with housing and employment, or help businesses re-establish themselves after relocating from war zones and occupied territories. Because regions and communities are being impacted in different ways, this has led to an uneven allocation of resources among communities, leading to disparities in the level of support required for recovery, modernisation, and the effective liquidity and absorption of funds.

In our view, the primary responsibility of the government – in partnership with civil society and assisted by international organisations – is to establish clear and transparent mechanisms aimed at mobilising domestic resources, attracting international financial support, and fairly distributing aid to meet the reconstruction and development needs of Ukrainian municipalities.

In this report, we present and address the main problems in accessing funds for Ukraine's reconstruction at the following three levels:

At the **community level**, municipalities, local governments, volunteers and residents are responding to the challenges of war in different ways – by repairing damaged infrastructure, assisting internally displaced persons, providing basic services to the population, and supporting the army. While reconstruction needs at this level can be financed through various means like local budget revenues, assistance from twin cities, humanitarian funds, volunteer projects, and government support in the form of targeted grants and state-funded projects, there is an urgent need to increase funding.

This section explores avenues for financing municipal needs through extra-budgetary sources, including international financial institutions. Public participation is crucial for attracting additional funds beyond the local budget, such as through joint projects with non-governmental organisations, discussions on local development priorities, and project monitoring.

At the **national level**, recovery policy is formulated and implemented by state and regional bodies. This section identifies opportunities for utilising state funds and other forms of state support to meet the recovery needs of municipalities. The state bears responsibility for ensuring that funds provided by international partners are distributed fairly and transparently among municipalities to ensure their

¹ From 2014 to 2020, the Ukrainian government implemented decentralisation reforms with the aim of enhancing regional development and local democracy. This resulted in the creation of 1470 communities or hromadas: 410 (28 per cent) of the city type, 433 (29 per cent) of the urban type, and 627 (43 per cent) of the rural type. The terms 'hromada', 'community', and 'municipality' are used interchangeably to refer to the distinct administrative and territorial units in Ukraine and the bodies that govern them.

recovery needs are met. It is our view that public participation in the tender committees tasked with reviewing reconstruction projects submitted by municipalities should be made mandatory and enshrined in law.

At the **international level**, support for Ukraine's reconstruction is being provided by international partners, financial institutions, and dedicated funds. This last section evaluates the availability of international financial support for municipalities.

This research series is divided into three publications, each dedicated to addressing the complexities of reconstruction funding at the level examined. All references to funds and civil society groups are for illustrative purposes and should not be interpreted as expressions of preference or exclusivity.

International financial support for Ukraine's recovery

The current state of play

A significant global financial effort will be required to meet the rebuilding and reconstruction needs of Ukraine, both during and after the war. Since the full-scale invasion, international efforts to support Ukraine financially have been crucial, resulted in the use of both traditional cooperation methods and new mechanisms and facilities provided by individual countries and the EU on a bilateral basis, mainly via international financial institutions and multilateral development institutions. Ukraine has been relying heavily on several individual countries, particularly Germany, the United States, and Nordic countries.² In 2023, the European Commission launched the Ukraine Facility, an EU financial mechanism dedicated to the recovery of Ukraine worth EUR 50 billion. Covering the period from 2024 to 2027, the Facility was formally adopted in February 2024.

While individual partner countries are in a position to define their approaches to providing financing for Ukraine, every international institution plays its role according to its mandate (Annex 1). From 2022 to 2023, most of the efforts of international financial institutions were concentrated at the macro-economic level in order to support the country's budget and state institutions, the internally displaced population, and the most vulnerable, but also to keep the overall economy running. External financing in the amount of USD 37.3 billion is needed for 2024, a figure verified by the International Monetary Fund (IMF).³

The third Rapid Damage and Recovery Needs Assessment (RDNA) for Ukraine, jointly compiled by the World Bank, the Ukrainian government, the European Union, and the United Nations, covers the period from 24 February 2022 to 31 December 2023. It comprehensively evaluates the war's impacts, both its direct physical damage to infrastructure and buildings and its effects on people's lives and livelihoods. Based on this assessment, the estimated total needs for the reconstruction and recovery of Ukraine amount to USD 486 billion.⁴ As of January 2024, the Kyiv School of Economics estimated that Russia's full-scale invasion had caused USD 155 billion (based on replacement costs) in direct damage to Ukraine's infrastructure. The ongoing war has resulted in the destruction of residential buildings, educational institutions, and critical infrastructure, leading to an overall increase in damage.⁵

The third RDNA takes into special consideration the impacts of the blast at the Kakhovka hydropower plant on the social, economic and natural environment, which has caused approximately USD 14 billion worth of damage and losses.⁶ This RDNA report, similar to the previous two reports, outlines the priorities the

² Kiel Institute for World Economy, [Ukraine Support Tracker: New aid drops to lowest level since January 2022](#), Kiel Institute for World Economy, 7 December 2023.

³ Ministry of Finance of Ukraine, [Ministry of Finance of Ukraine attracted USD 42.6 billion of concessional and grant financing from international partners in 2023](#), Ministry of Finance of Ukraine, 28 December 2023.

⁴ World Bank, [Ukraine Third Rapid Damage and Needs Assessment \(RDNA3\): February 2022 – December 2023](#), World Bank, 14 February 2024.

⁵ Kyiv School of Economics, [\\$155 billion — the total amount of damages caused to Ukraine's infrastructure due to the war, as of January 2024](#), Kyiv School of Economics, 12 February 2024.

⁶ Agence France-Presse, [UN Reports 'Staggering' \\$14 Billion Cost of Ukraine Dam Breach](#), Voice of America, 17 October 2023.

government must set in terms of the recovery and reconstruction. However, interested stakeholders were not consulted during the formulation of the report.

In 2023, the state budget received USD 42.6 billion in external financing,⁷ of which 27 per cent comprised grant funds. The major donors of financial aid in 2023 were as follows: the EU – USD 19.7 billion (concessional financing); the United States – USD 11 billion (grants); the IMF – USD 4.5 billion (concessional financing); Japan – USD 3.6 billion (concessional financing and grants); Canada – USD 1.8 billion (concessional financing); the United Kingdom – USD 1 billion (guarantee); and the World Bank – USD 652 million (concessional financing). In total, since the beginning of the full-scale war, international partners have provided USD 73.7 billion to Ukraine.

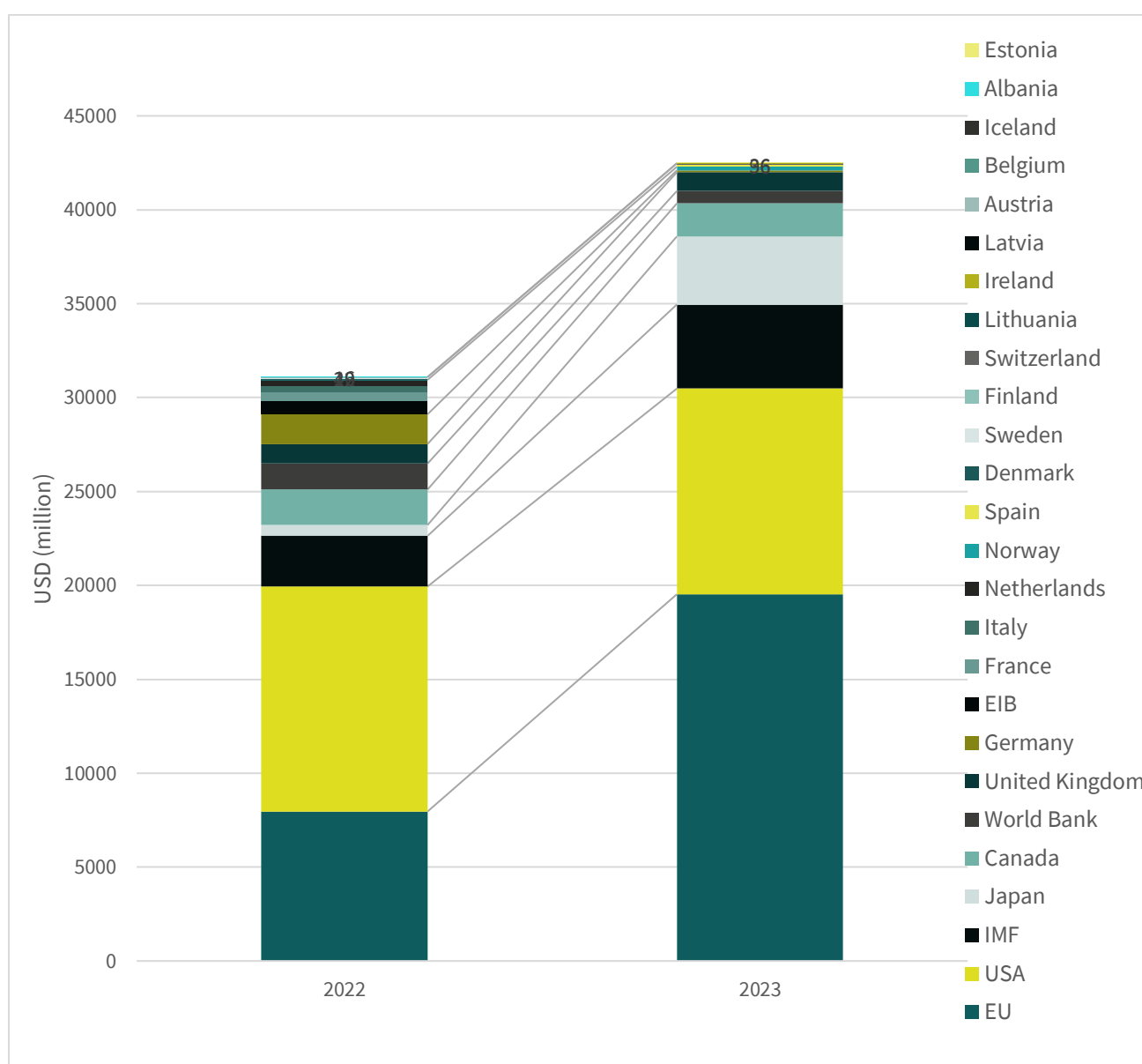


Figure 1. State budget financing (general fund) received in 2023, split by sources.⁸

⁷ Ministry of Finance of Ukraine, [Ministry of Finance of Ukraine attracted USD 42.6 billion of concessional and grant financing from international partners in 2023](#), Ministry of Finance of Ukraine, 28 December 2023.

⁸ Ibid.

With regard to the contributions of financial institutions, the official web page of the Ministry of Finance of Ukraine provides data (Figure 2) on the main donors: the International Bank for Reconstruction and Development (IBRD) – 34.54 per cent of the total amount of funding provided by international financial institutions; the European Bank for Reconstruction and Development (EBRD) – 29.85 per cent; the European Investment Bank (EIB) – 28.74 per cent; the Clean Technology Fund (CTF–IBRD) – 0.98 per cent; Kreditanstalt für Wiederaufbau (KfW) – 3.23 per cent; the European Atomic Energy Community (Euratom) – 2.58 per cent; and the Nordic Environment Finance Corporation (NEFCO) – 0.07 per cent.⁹

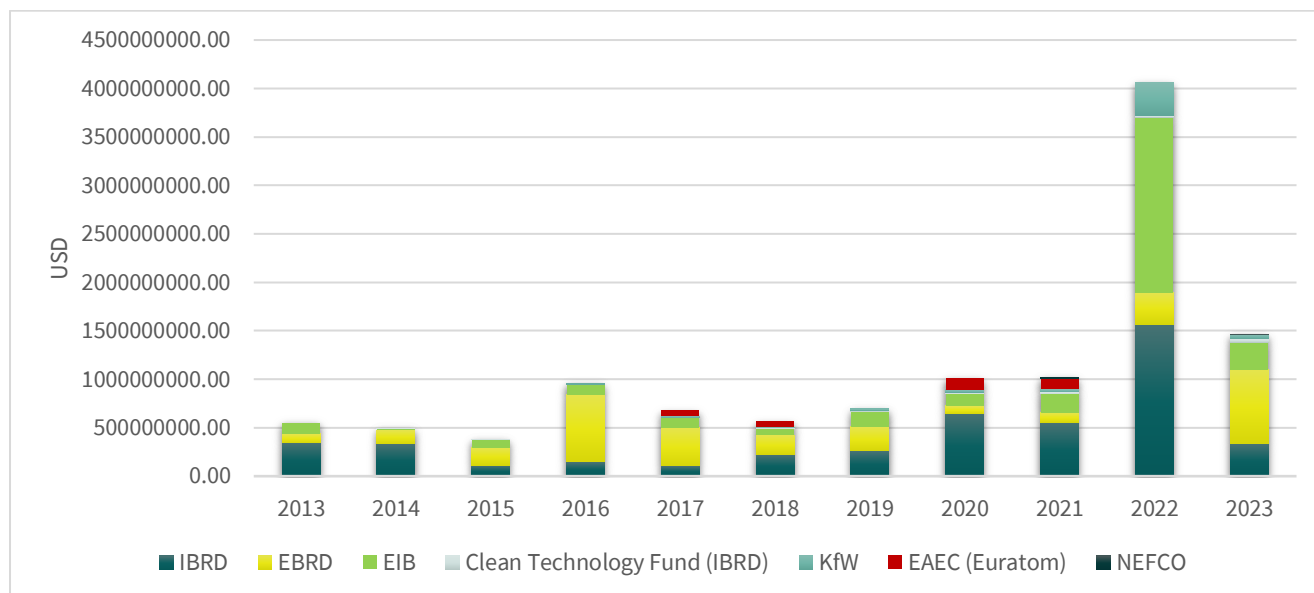


Figure 2. Differences in contributions from international financial institutions in USD.¹⁰

In 2024, Ukraine will need USD 37 billion in external financing to cover its state budget needs,¹¹ or 34 per cent of all budget expenditures. As of January 2024, the Ukrainian government had not confirmed the pledges of its partners.

International financing and instruments for municipalities and local reconstruction projects

Since the beginning of Russia's full-scale military aggression, Ukraine has needed to sustain its financial and macroeconomic stability. To this end, support from the IMF and the EU has been crucial.

Throughout its 31 years of cooperation with the IMF, Ukraine has launched 16 economic development and support programmes for reforms in Ukraine totalling USD 53.9 billion. This assistance was provided under various instruments, such as the Rapid Financing Instrument (RFI) and the Extended Fund Facility (EFF), as well as on a concessional and grant basis from international partners through a specially created IMF Administered Account. On 31 March 2023, the IMF approved a new EFF in the amount of USD 15.6 billion – unprecedented in times of war – of which Ukraine received about USD 4.5 billion in 2023. The EFF is part of

⁹ IFIs projects, [Статистика](#), IFIs projects, accessed 31 January 2024.

¹⁰ Ibid.

¹¹ Liya Ilchenko, [Україна у 2024 році знизить потребу в зовнішньому фінансуванні - Шмигаль](#), *Економічна правда*, 3 January 2024.

a support package for Ukraine totalling USD 122 billion over the period from 2023 to 2027. According to the current cooperation programme, the IMF should provide USD 5.4 billion in 2024.

Ukraine's EFF aims to support policies that preserve fiscal, pricing and financial stability, promote economic recovery, improve governance, and strengthen institutions. The facility is designed to promote long-term growth in the context of the post-war reconstruction and Ukraine's path to EU accession.¹² Ukraine has already passed two reviews, during which it has taken the necessary steps to reach the majority of programme benchmarks. In December 2024, the IMF approved the results of the second review of the financing programme for Ukraine, noting significant progress in fulfilling its obligations in the context of the war. The IMF also provided a new list of structural benchmarks for 2024, including changes to the independence of the state's anti-corruption policy, the restart of the Bureau of Economic Security, and optimisation of the budget and banking sector.¹³ The IMF's requirements and financial support are not directly related to decentralisation reform. In general, however, the reforms that need to be implemented will have a positive impact on the development of municipalities.

Institutions of the World Bank Group (Annex 1¹⁴) aim to provide financial and technical assistance to emerging markets. Among Ukraine's international financial partners, the World Bank is second only to the IMF in terms of support volume. Ukraine collaborates with the IBRD, the International Finance Corporation (IFC), and the International Development Association (IDA) to obtain funds for financial and technical support for the state budget, the implementation of institutional and structural reforms, and the preparation and execution of long-term investment projects in line with Ukraine's economic development priorities.

During Ukraine's cooperation with the World Bank, a total of 136 projects have been implemented in 148 locations worth USD 31.66 billion. As of 19 March 2024, there are 28 active projects in 57 locations in Ukraine worth USD 14.35 billion.¹⁵

Since February 2022, the World Bank Group has mobilised over USD 41 billion in financial support for Ukraine. Of this total, over USD 33 billion has been disbursed as of January 2024, with development partners providing 95 per cent of the financing.¹⁶

The World Bank's financial support for Ukraine mainly comprises contributions in the form of grants and guarantees provided by the EU and the World Bank's member countries, including the United States, the United Kingdom, and Japan. All of these financial contributions have helped Ukraine implement various programmes and projects aimed at responding to the economic emergency caused by the ongoing war.

¹² Ministry of Foreign Affairs of Ukraine, [Співробітництво України з міжнародними фінансовими інституціями](#), *Ministry of Foreign Affairs of Ukraine*, 2 August 2023.

¹³ International Monetary Fund, [IMF Executive Board Concludes the 2023 Article IV Consultation and the Second Review under the Extended Fund Facility Arrangement for Ukraine](#), *International Monetary Fund*, 11 December 2023.

¹⁴ International Finance Corporation, [IFC: The First Six Decades – Leading the Way in Private Sector Development: A History](#), *International Finance Corporation*, accessed 19 January 2024.

¹⁵ World Bank, [Maps](#), *World Bank*, accessed 18 March 2024.

¹⁶ World Bank, [World Bank Group Financing Support Mobilization to Ukraine since February 24, 2022](#), *World Bank*, 1 March 2024.

The World Bank Group established the Multi-Donor Resources for Institutions and Infrastructure (MRII) Facility to support Ukraine through a coordinated effort between the IBRD, the IFC, and the Multilateral Investment Guarantee Agency (MIGA) (Figure 3). The MRII takes a phased and multi-pronged approach to mobilising financing and coordinating support through guarantees, co-financing, parallel financing, and other financial instruments.

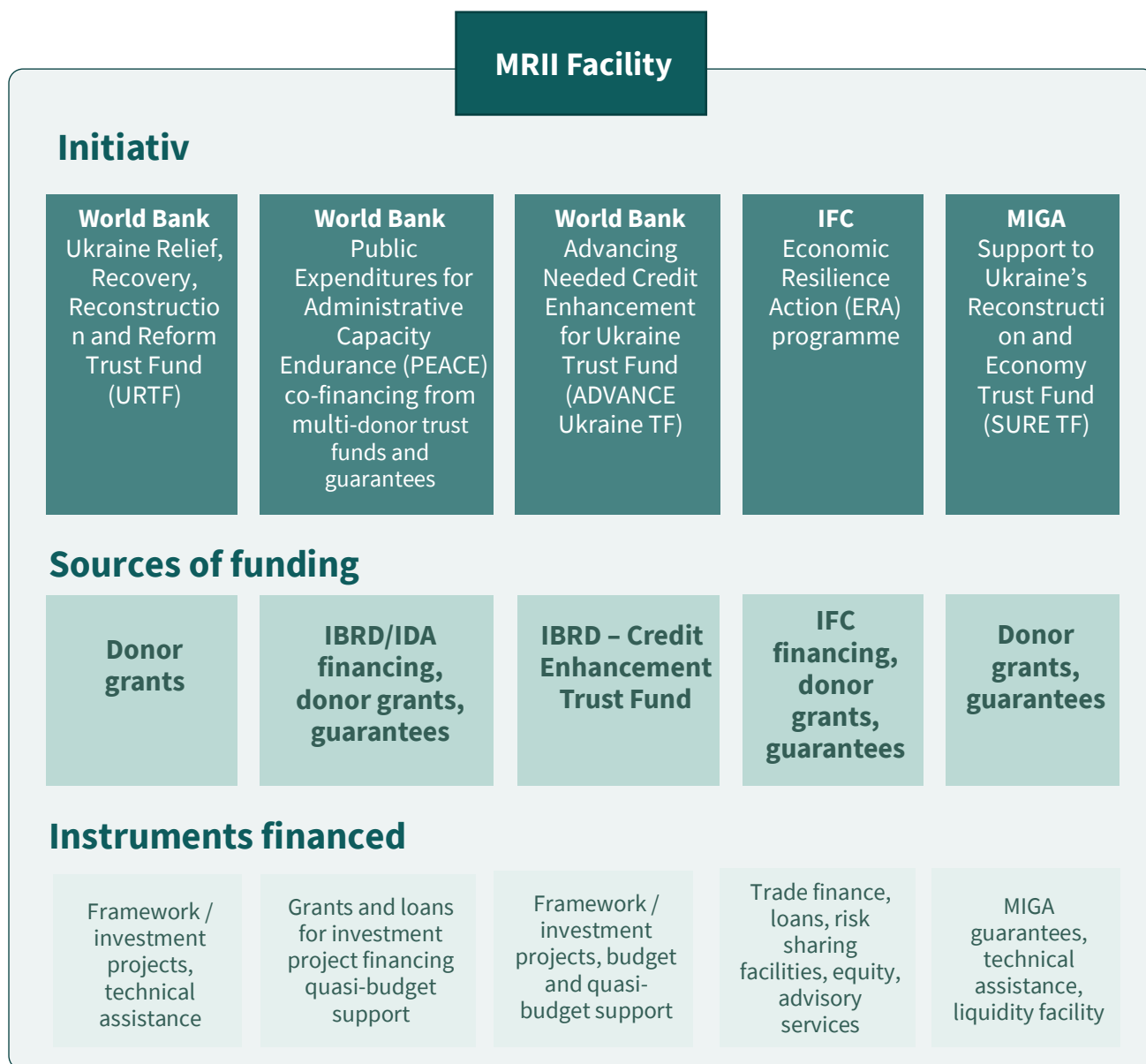


Figure 3. Multi-Donor Resources for Institutions and Infrastructure (MRII) for the Ukraine Facility.¹⁷

Approximately USD 25.2 billion in emergency financing for Ukraine has been primarily allocated through the Public Expenditures for Administrative Capacity Endurance (PEACE) project.¹⁸ Established by the World

¹⁷ World Bank, [The Multi-Donor Resources for Institutions and Infrastructure \(MRII\) for Ukraine Facility](#), World Bank, accessed 30 January 2024.

¹⁸ World Bank, [World Bank Group Financing Support Mobilization to Ukraine since February 24, 2022](#), World Bank, 1 March 2024.

Bank, this financial instrument has enabled other international donors to provide fast and reliable support for Ukraine.

Government programmes in Ukraine supported through the PEACE project have mobilised financing in the form of pensions, social assistance for the poor, social assistance to compensate for the payment of utility bills, social assistance for children with disabilities, grants for internally displaced persons, payments to hospitals and clinics for delivering health services, and wages to State Emergency Service staff.¹⁹

In 2022, the World Bank established a multi-donor trust fund. The aim of this fund is to support the government of Ukraine as it coordinates relief operations and the subsequent recovery of the country, efforts driven by critical needs arising from the ongoing war. The Ukraine Relief, Recovery, Reconstruction, and Reform Trust Fund (URTF) is managed by the World Bank and provides coordinated financing and support mechanisms. Its goal is to assist the government in maintaining its administrative and service delivery capacity, conducting relief efforts, and planning and implementing the country's reconstruction and reform agenda. The fund also provides resources to support critical advisory and analytical work related to relief and reconstruction efforts. The URTF is an efficient and flexible platform that allows the World Bank to prioritise and channel funding to meet the most urgent development needs identified by the Ukrainian government.²⁰ As of January 2024, approximately USD 1.54 billion in emergency financing for Ukraine had been allocated through the URTF.²¹ The second Rapid Damage and Needs Assessment, jointly compiled by the World Bank Group, the government of Ukraine, the European Commission, and the United Nations, provides a first-year assessment of the war's impacts on the country's infrastructure, including an overview of the role of local governments in the reconstruction (Annex 2).

The IBRD supports the World Bank Group's mission by providing loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries. It also plays a role in coordinating responses to regional and global challenges. It offers innovative financial solutions, including financial products (loans, guarantees, and risk management products) and knowledge and advisory services (including on a reimbursable basis) to governments at national and subnational levels.²² As of 1 January 2024, the IBRD's Ukraine portfolio consisted of 23 projects. Of these, 21 were investment projects in the implementation stage, with the other two aimed at systemic support of the state budget and developing the financial sector. The total value of the portfolio is USD 7.8 billion and EUR 1.04 billion, respectively. In addition, USD 732.5 million and EUR 37.7 million in grant funds are being used to implement five investment projects.²³

¹⁹ World Bank, [Supporting Ukraine through the War](#), World Bank, accessed 30 January 2024.

²⁰ World Bank, [Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund \(URTF\)](#), World Bank, accessed 19 January 2024.

²¹ World Bank, [World Bank Group Financing Support Mobilization to Ukraine since February 24, 2022](#), World Bank, 1 March 2024.

²² World Bank, [International Bank For Reconstruction And Development](#), World Bank, accessed 19 January 2024.

²³ Ministry of Finance of Ukraine, [Інформаційна довідка щодо стану співробітництва України зі Світовим банком](#), Ministry of Finance of Ukraine, accessed 10 January 2024.

The IFC is the World Bank's private financing arm.²⁴ Since February 2022, it has mobilised USD 677 million in emergency financial support for Ukraine.²⁵

In December 2022, the IFC launched a financial and technical support framework for Ukraine called the Economic Resilience Action (ERA) programme. Representing a commitment of USD 2 billion to be deployed over a two-year period, the programme aims to sustain economic activity, deliver essential goods, support vital economic infrastructure, and address the needs of displaced people and affected municipalities. Under the programme, the IFC is providing private-sector financing in two phases. The first phase focuses on increasing resilience during wartime through access to funds for refugees, municipal infrastructure and housing. The second phase involves rebuilding infrastructure as part of the continuation of recovery efforts after the war ends.²⁶ As of the beginning of 2024, IFC resources and guarantees provided by donors in the amount of USD 1 billion had already been utilised.²⁷

In October 2022, the IFC announced that it would manage the EU's EUR 25 million in grant funding to help Ukrainian cities provide quality housing for internally displaced persons. The funds are to be used to support the renovation of municipal buildings for internally displaced persons, with the project set to be piloted in Lviv.²⁸ In the autumn of 2023, the reconstruction began on a hospital facility selected by the IFC from a list submitted by Lviv City Council. The facility, which had ceased functioning, will now be redesigned to meet the needs of internally displaced persons in need of nursing and medical care, along with their primary carers. Designed for 50 to 80 people, the building will be reconstructed in the style of a dormitory. The reconstruction is scheduled to be completed by the end of 2024. The project is expected to run for five years, after which it will be re-equipped as a palliative care centre should the war end.²⁹

In November 2022, the IFC and Ukraine's Energy Efficiency Fund entered into a new agreement that will channel up to EUR 25 million in EU funds. The project is intended to help homeowner associations restore residential buildings damaged during the war.³⁰

During the 2023 Ukraine Recovery Conference (URC) in London, the European Commission signed two agreements with the IFC to provide financial support and mobilise private investment. The first agreement focuses on the IFC's Small Loan Guarantee Program, which will provide up to EUR 200 million to small businesses, with a particular emphasis on the agriculture sector and enterprises owned by women. The second agreement provides financing for the renovation of municipal buildings, which will be used to accommodate internally displaced persons. As part of the agreement, the IFC will provide EUR 1.1 million

²⁴ International Finance Corporation, [Who We Are](#), *International Finance Corporation*, accessed 19 January 2024.

²⁵ World Bank, [World Bank Group Financing Support Mobilization to Ukraine since February 24, 2022](#), *World Bank*, 1 March 2024.

²⁶ International Finance Corporation, [IFC's Economic Resilience Action Program for Ukraine](#), *International Finance Corporation*, accessed 30 January 2024.

²⁷ Olena Voloshyna, [Голова Міжнародної фінансової корпорації \(IFC\) в Україні: «Виводитимемо «Укргазбанк» на приватизацію»](#), *Mind.ua*, 30 January 2024.

²⁸ International Finance Corporation, [IFC and EU announce €25 million in grant funding to help Ukrainian cities provide quality housing for internally displaced persons](#), *International Finance Corporation*, 4 October 2022.

²⁹ Volodymyr Fedorovich, [У Львові корпус однієї з лікарень перероблять під центр для ВПО](#), *Твоє Місто*, 13 October 2023.

³⁰ International Finance Corporation, [New EU-IFC Grant Program to Help Restore Homes Damaged by War](#), *International Finance Corporation*, accessed 28 November 2022.

in EU grants to Kremenchuk City Council. During the same conference, the IFC concluded several other agreements with international partners, including MIGA, British International Investment (BII), and the United States International Development Finance Corporation (DFC). These agreements aim to increase the IFC's Global Trade Finance Program in Ukraine from USD 200 million to almost USD 300 million.³¹

MIGA promotes cross-border investment in developing countries by providing guarantees as political risk insurance (PRI) and credit enhancement to investors and lenders. As of 1 September 2023, MIGA was a proactive provider of insurance in Ukraine, issuing more than USD 185 million in PRI guarantees since Russia's invasion began in February 2022. Through these efforts, MIGA has actively encouraged cross-border investment in Ukraine. MIGA's guarantees serve as a key risk mitigation tool, ensuring the continuity of private-sector operations and investments in the country's recovery and reconstruction.³²

Given the heightened risks of operating in Ukraine during the ongoing war, MIGA uses the Support for Ukraine's Reconstruction and Economy Trust Fund (SURE TF) to enable its guaranteed issuance in Ukraine. MIGA expects the SURE TF, which was established with Japan's critical anchor contribution of USD 23 million, to grow to USD 300 million through contributions from additional donors. MIGA is also actively fundraising towards this end.³³

The World Bank Group's support has provided wages for hospital workers and government and school employees, pensions for older people, salaries for public servants, and social programmes for the vulnerable. These efforts are crucial in providing adequate budget support to keep the government operational and deliver essential services. Without the financial assistance of the World Bank Group, rebuilding and recovering the economy would become much more expensive and more people would fall into poverty. The World Bank Group's current focus is on simultaneous recovery involving emergency repairs and continued support for essential services. Ukraine needs urgent investments to repair energy infrastructure, roads, bridges, housing, schools, and clinics, so that these services can be delivered.³⁴

At the same time, given its history of supporting the institutional capacity of communities³⁵ and sustainable development³⁶ in other countries, the World Bank supports initiatives aimed at strengthening the organisational capacity of officials in Ukraine. For example, in November 2023, the Center for Advancement in Restoration and Modernization Capacity (CARMC) was launched in Kyiv. The establishment of CARMC was initiated by the Cabinet of Ministers of Ukraine and the Kyiv School of Economics with support from the World Bank Group. The primary objective of CARMC is to enhance Ukraine's recovery capacity by improving the knowledge and skills of professionals engaged in the recovery process and to help them build a professional network and community. The aim is to train 6,000 professionals in reconstruction project

³¹ European Commission Spokesperson's Service, [Ukraine Recovery Conference: President von der Leyen and Executive Vice-President Dombrovskis showcase strong EU support with new €50 billion Ukraine Facility and €800 million in agreements to mobilise investment for Ukraine's recovery](#), *European Commission*, 21 June 2023.

³² Multilateral Investment Guarantee Agency, [MIGA's Ukraine Response](#), *Multilateral Investment Guarantee Agency*, accessed 20 January 2024.

³³ Multilateral Investment Guarantee Agency, [Support to Ukraine's Reconstruction and Economy Trust Fund \(SURE TF\)](#), *Multilateral Investment Guarantee Agency*, accessed 20 January 2024.

³⁴ World Bank, [World Bank Group Support to Ukraine](#), *World Bank*, accessed 20 January 2024.

³⁵ Jessica Grisanti, Ana I. Aguilera, Arturo Villegas, [Municipal Institutional Capacity Assessment \(MICA\): a diagnostic toolkit to enable sustainable development at the municipal level informs project preparation](#), *World Bank*, 12 September 2019.

³⁶ World Bank, [3 Big Ideas to Achieve Sustainable Cities and Communities](#), *World Bank*, 31 January 2018.

management, who will become the backbone of the recovery community and share their experiences and knowledge with other professionals.³⁷

European Bank for Reconstruction and Development (EBRD)

Since becoming a member of the EBRD in 1992, a total of 566 projects have been implemented in Ukraine, of which 216 are now active. Cumulative EBRD investment is EUR 19.1 billion, with the current portfolio at EUR 4.86 billion.³⁸

The EBRD has committed to providing EUR 3 billion in financing over the 2022–2023 period to help keep Ukraine’s businesses and economy functioning. In 2023, the EBRD disbursed a record EUR 2.1 billion to Ukraine, following its allocation of EUR 1.7 billion in 2022. It is expected that around EUR 1.5 billion will be invested in Ukraine annually while under martial law. When reconstruction commences, the capital increase will allow for a potential doubling of activity. The EBRD would not have been able to drum up such sizeable investments without generous grants and guarantees provided by donor partners, amounting to more than EUR 1.6 billion between 2022 and 2023.³⁹

Since 2022, the EBRD has approved and signed more than 25 new projects in Ukraine.⁴⁰ Most of the EBRD’s programmes focus on energy, infrastructure, agriculture and strengthening the resilience of the banking system.

Throughout its decades-long cooperation with Ukraine, the EBRD has financed about 40 projects to improve the municipal and environmental infrastructure sector. These projects have covered transport (Khmelnyskyi, Zhytomyr, Poltava, Odessa Trolleybus, Kharkiv, Kyiv Metro), solid waste (Lviv, Mariupol, Khmelnyskyi), water supply (Mykolaiv), wastewater and district heating (Kyiv, Chernivtsi), energy efficiency in public buildings (Dnipro, Kremenchuk), and emergency liquidity for Ukrainian municipalities (Dnipro, Lviv).⁴¹

The EBRD Green Cities programme takes a broad approach to identifying and prioritising environmental challenges, which it aims to overcome with targeted infrastructure investments and policy measures.⁴² Participation in the EBRD Green Cities programme is an opportunity to obtain additional funding for the reconstruction of Ukrainian cities. By the end of 2023, seven Ukrainian cities had joined the Green Cities programme: Khmelnyskyi, Kryvyi Rih, Kyiv, Mariupol (temporarily occupied), Lviv (since 2019), Kharkiv, and Dnipro (since 2021).⁴³

³⁷ Kyiv School of Economics, [The Center for advancement in restoration and modernization capacity of Ukraine launched at the initiative of Cabinet of ministers and Kyiv school of Economics](#), *Kyiv School of Economics*, 10 November 2023.

³⁸ European Bank for Reconstruction and Development, [Ukraine data](#), *European Bank for Reconstruction and Development*, accessed 30 November 2023.

³⁹ Vanora Bennett, [EBRD deploys a record €2.1 billion in Ukraine in 2023](#), *European Bank for Reconstruction and Development*, 25 January 2024.

⁴⁰ European Bank for Reconstruction and Development, [Project Summary Documents](#), *European Bank for Reconstruction and Development*, accessed 30 January 2024.

⁴¹ Ibid.

⁴² European Bank for Reconstruction and Development, [EBRD Green Cities](#), *European Bank for Reconstruction and Development*, accessed 10 January 2024.

⁴³ Olha Stohnushenko, Fidanka Bacheva-McGrath, [EBRD urban projects in Ukraine must drive national recovery efforts](#), *CEE Bankwatch Network*, 19 May 2023.

However, EBRD-funded projects are typically implemented in large cities and regional centres. There are several reasons for this. Firstly, until recently, village and settlement councils were not eligible for loans. This discriminatory condition was regulated following amendments to the Budget Code of Ukraine.⁴⁴ Secondly, large cities have more financial resources that can be used for co-financing, as well as more human resources and professional staff for developing projects.

European Investment Bank (EIB)

The EIB has provided financial support to Ukraine since 2007 in alignment with the European Neighbourhood Policy (ENP), the Eastern Partnership (EaP) and other EU bilateral agreements. It has a strong impact on the labour market, preserving existing jobs and creating new employment opportunities. Throughout its cooperation with Ukraine, the EIB has financed 55 projects totalling EUR 8.16 billion.⁴⁵

Following the outbreak of the war, the EIB launched a financial aid package called the Ukraine Solidarity Urgent Response. The first phase of the programme consisted of two disbursements. The first disbursement, approved by the EIB Board in March 2022, comprised a EUR 668 million package to help the Ukrainian government meet the country's most immediate and urgent financial needs.⁴⁶ The second disbursement, approved by the EIB Board in July 2022, comprised a EUR 1.59 billion package to help Ukraine repair damaged infrastructure, restart municipal services, and support urgent energy efficiency measures in preparation for colder months.⁴⁷

Humanitarian aid donations amounted to EUR 3.6 million. The donations, coordinated by the EIB Institute, prioritised emergency relief for people impacted by the conflict in Ukraine and its neighbouring countries: EUR 2.5 million in March 2022, EUR 95 000 in October 2022, and EUR 1 million in December 2022.⁴⁸

The EIB has approved the EU for Ukraine Initiative, which is aimed at financing Ukraine's recovery and reconstruction and the country's transport, energy and business investments around the world. The EU for Ukraine Initiative will be accompanied by a dedicated technical assistance package worth EUR 100 million.⁴⁹

In July 2023, the EIB and the ministers of 16 EU Member States signed expressions of intent for the EIB's EU for Ukraine Fund (EU4U Fund) in support of Ukraine's agenda for recovery and reconstruction. The aim of the EU4U Fund is to rapidly increase support for Ukraine's most urgent infrastructure needs and sustain the economy. The fund will facilitate the deployment of both public- and private-sector projects, with a focus on municipal infrastructure such as schools and hospitals, transport networks, water and wastewater

⁴⁴ Verkhovna Rada of Ukraine, [Закон України - Про внесення змін до Бюджетного кодексу України щодо забезпечення підтримки обороноздатності держави та розвитку оборонно-промислового комплексу України](#), Verkhovna Rada of Ukraine, 8 November 2023.

⁴⁵ European Investment Bank, [Ukraine and the EIB](#), European Investment Bank, accessed 10 January 2024.

⁴⁶ European Investment Bank, [EIB Board approves €668 million immediate financial support to Ukraine](#), European Investment Bank, 4 March 2022.

⁴⁷ European Investment Bank, [EIB Board, supported by the EU Commission, approves €1.59 billion of EU financial assistance for Ukraine](#), European Investment Bank, 25 July 2022.

⁴⁸ European Investment Bank, [The EIB stands with Ukraine](#), European Investment Bank, 16 January 2024.

⁴⁹ European Investment Bank, [EIB approves "EU for Ukraine" Initiative to finance Ukraine recovery and reconstruction, and backs transport, energy and business investment around the world](#), European Investment Bank, 29 March 2023.

treatment facilities, digital and cybersecurity capabilities, and improved access to finance for Ukrainian entrepreneurs. The EU Member States involved have pledged over EUR 400 million to date.⁵⁰

Ukrainian municipalities were able to participate in the competitive selection of projects under the EIB's Emergency Loan Programme for the Reconstruction of Ukraine and the Ukraine Recovery Programme. The competition was organised by the Ministry for Reconstruction. The Ukraine Recovery Programme⁵¹ is a continuation of the Emergency Loan Programme for the Reconstruction of Ukraine,⁵² which was signed in 2014 to attract EUR 200 million and was the first experimental programme to combine a loan for Ukraine and non-repayable funds for local executive authorities and local self-government bodies. The programme funds go to municipalities as a subvention from the state budget if a project submitted by the community is selected.⁵³

The Ministry for Restoration of Ukraine also announced the selection of projects under the Energy Efficiency of Public Buildings in Ukraine financial agreement between Ukraine and the EIB.⁵⁴

EIB-funded projects listed on the Digital Restoration EcoSystem for Accountable Management (DREAM) platform

As of 30 January 2024, the DREAM platform details the registration of:⁵⁵

- 1,771 projects totalling UAH 114.91 billion, with funding confirmed in the amount of UAH 43.15 billion;
- 218 projects financed by international partners totalling UAH 18.32 billion, with funding confirmed in the amount of UAH 11.05 billion;
- 82 projects financed by the Ukraine Recovery Programme totalling UAH 7.5 billion, with funding confirmed in the amount of UAH 4.03 billion;
- 55 projects financed by the Emergency Loan Program for the Reconstruction of Ukraine totalling UAH 3.9 billion, with funding confirmed in the amount of UAH 1.99 billion; and
- 41 projects financed by the EIB totalling UAH 5.13 billion, with funding confirmed in the amount of UAH 3.88 billion.

⁵⁰ European Investment Bank, [EU Member States pledge over €400 million to the EIB's Fund supporting Ukraine](#), *European Investment Bank*, 13 July 2023.

⁵¹ European Investment Bank, [Ukraine Recovery Programme](#), *European Investment Bank*, 1 July 2020.

⁵² Ministry for Communities and Territories Development of Ukraine, [The European Investment Bank will provide EUR 340 million to rebuild the country's infrastructure](#), *Government Portal*, 10 December 2020.

⁵³ Cabinet of Ministers of Ukraine, [Про затвердження Порядку та умов надання субвенції з державного бюджету місцевим бюджетам на реалізацію проектів у рамках Програми з відновлення України](#), *Verkhovna Rada of Ukraine*, 15 December 2021.

⁵⁴ Ministry for Restoration, [Європейський інвестиційний банк профінансує найкращі проєкти з енергоефективності](#), *Ministry for Restoration*, 11 September 2023.

⁵⁵ Digital Restoration Ecosystem for Accountable Management, [DREAM Analytics](#), Digital Restoration Ecosystem for Accountable Management, accessed 30 January 2024.

At the time this study was being prepared, the DREAM platform was being tested and may not have reflected the actual state of affairs. Additionally, not all municipalities had uploaded their data at the time. Nevertheless, the platform, which is expected to expand in the coming years, is likely to prove its worth as a convenient and accountable digital tool for assessing recovery needs.

Nordic Environment Finance Corporation (NEFCO)

NEFCO has extensive experience in working directly with municipalities, financing projects, building capacity and monitoring results.⁵⁶

In 2009, NEFCO and Ukraine signed a framework agreement that provided a legal framework for NEFCO's operations as an international financial institution in Ukraine. This document was ratified by the Law of Ukraine on the Ratification of the Framework Agreement between the Government of Ukraine and the Nordic Environment Finance Corporation, dated 21 September 2010.⁵⁷

NEFCO's project portfolio in Ukraine includes over 200 active projects in various stages. Of these, approximately 130 are being implemented in cooperation with Ukrainian municipalities.⁵⁸

In July 2022, in the aftermath of Russia's full-scale invasion, NEFCO created the Green Recovery Programme for Ukraine, which focuses on actions that help municipalities build back greener and better. Through various initiatives, the programme is providing financial support and technical assistance to municipalities to address the direct and indirect consequences of the war. Financial support can be used to conduct repairs and rebuild municipal infrastructure in an environmentally sound way, accommodate internally displaced persons, and build capacity for designing local green recovery plans.

In 2023, NEFCO managed three new EU-funded projects, which involved around 30 communities in Ukraine. These projects were aimed at rebuilding critical infrastructure, providing for urgent housing needs, and building new housing for internally displaced persons. They were chosen based on proposals by the Ministry for Restoration, with final approvals overseen by the EU.⁵⁹ NEFCO's financing programmes put the development of a green economy and the transition to renewable energy sources front and centre of Ukraine's recovery efforts (Annex 3).

Among the main obstacles to the cooperation of municipalities with NEFCO, as with the other international financial institutions, is the need to co-finance grant projects and the fear of taking out loans. Municipalities need high-quality staff who are able to create project proposals and craft high-quality design and estimate documentation. In addition, projects proposed by municipalities must first undergo a selection process overseen by the Ministry for Restoration before being considered for NEFCO funding.

⁵⁶ Nordic Environment Finance Corporation, [Municipalities in Eastern Europe](#), Nordic Environment Finance Corporation, accessed 19 January 2024.

⁵⁷ Verkhovna Rada of Ukraine, [Закон України: Про ратифікацію Рамкової угоди між Урядом України та Північною екологічною фінансовою корпорацією](#), Verkhovna Rada of Ukraine, 21 September 2010.

⁵⁸ Sweden–Ukraine District Heating, [How we work](#), Nordic Environment Finance Corporation, accessed 27 December 2023.

⁵⁹ Oksana Gryshyna, [Nefco is working with several new initiatives under the Green Recovery for Ukraine programme - Chief Investment Advisor of Nefco Yuliia Shevchuk](#), Interfax-Ukraine, 30 March 2023.

Availability of bilateral support and international technical assistance for local restoration projects

Ukraine Facility

In June 2023, the European Commission proposed establishing the Ukraine Facility as a framework to provide financial support in the form of grants, loans and guarantees. With a budget of approximately EUR 50 billion covering the period 2024–2027,⁶⁰ the Facility is built upon three pillars:

- pillar I: The government of Ukraine will prepare a ‘Ukraine Plan’, setting out its intentions for the recovery, reconstruction and modernisation of the country and the reforms it plans to undertake as part of its EU accession process. Financial support in the form of grants and loans to the state of Ukraine would be provided based on the implementation of the Ukraine Plan, which will be underpinned by a set of conditions and a timeline for disbursements
- pillar II: Under the Ukraine investment Framework, the EU will provide support in the form of budgetary guarantees and a blend of grants and loans from public and private institutions. A Ukraine Guarantee would cover the risks of loans, guarantees, capital market instruments and other forms of funding supporting the objectives of the Facility
- pillar III: Union accession assistance and other supporting measures helping Ukraine align with EU laws and carrying out structural reforms on its path to future EU membership⁶¹

It is expected that EUR 33 billion will be disbursed in the form of loans and EUR 17 billion in the form of grants. At least 20 per cent of the grants will be allocated to the recovery, reconstruction, and modernisation of regions and municipalities.⁶² The Ukraine Facility Regulation includes provisions on meaningful stakeholder engagement and strengthens the principles of ‘leave no one behind’ and ‘do no significant harm’ to biodiversity. Additionally, at least 20 per cent of the total proposed budget for financing the reconstruction must be dedicated to climate and environmental measures, as well as supporting the green transition, which includes protecting biodiversity.

Kreditanstalt für Wiederaufbau

Kreditanstalt für Wiederaufbau (KfW) is a state-owned bank of the government of the Federal Republic of Germany. A leader among German banks in promoting economic development in Germany, Europe and the world, KfW focuses on supporting small and medium-sized enterprises, sustainable construction and energy efficiency, environmental protection, financing of social infrastructure (water, energy, education, healthcare), export and project financing, and refinancing. To date, eight investment projects with a total

⁶⁰ Tim Peters, [Establishing the Ukraine Facility: Financing Ukraine’s recovery and its path to EU accession](#), European Parliamentary Research Service, 11 March 2024.

⁶¹ Council of the European Union and the European Council, [Ukraine Facility: Council and Parliament agree on new support mechanism for Ukraine](#), Council of the European Union and the European Council, modified on 15 February 2024.

⁶² European Parliament, [Parliament and Council agree on long-term solution for Ukraine’s funding needs](#), European Parliament, 6 February 2024.

loan volume of EUR 318.05 million are being implemented in Ukraine. Of this total amount, EUR 126.76 million (39.86 per cent) had been disbursed as of 1 January 2024.⁶³

International technical assistance programmes

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)⁶⁴ GmbH has been working in Ukraine since 1993 on projects focused on public administration reforms, sustainable economic development, energy efficiency and climate change mitigation.

When Russia's war of aggression began in February 2022, GIZ rapidly took flexible measures to realign its work. Since then, the company has been supplying Ukraine with electricity, medicine, emergency accommodation, and equipment needed for disaster management and fire services. The agency also takes a long-term approach to mobilising capacity to rebuild the country and continues to advise Ukrainian officials on reforms needed to bring Ukraine in line with EU standards.

The Ukraine – Local Empowerment, Accountability and Development (U-LEAD) with Europe programme is a partnership between the Ukrainian government, the EU, and the EU Member States of Germany, Sweden, Poland, Denmark, Estonia and Slovenia. Its mission is to support the establishment of multi-level governance that is not only transparent and accountable, but also responsive to the needs of the population of Ukraine. U-LEAD with Europe is implemented by GIZ GmbH. As of the end of 2023, EUR 176 million had been invested by donors, with 333 war-affected municipalities receiving emergency packages.⁶⁵

U-LEAD provides policy and legal advice to key groups on national, regional and local levels as they strive to ensure that local self-government has a strong role in the current context of war and reconstruction. The organisation undertakes activities to strengthen transparency and integrity in the system of multi-level governance. U-LEAD is also likely to play a key role in pushing through decentralisation reforms and preparing Ukraine for EU membership. However, local governments face challenges due to increased responsibilities and limited funding. Alongside their usual duties, they are now tasked with assisting displaced persons and the military. Addressing these challenges requires additional funding. However, a lack of skilled staff is hindering local governments from effectively developing and implementing new programmes. Despite access to competitive mechanisms and donor organisations, communities still struggle to utilise these resources due to limited capacity.⁶⁶

The United Nations Development Programme (UNDP)⁶⁷ works in more than 170 countries and territories around the world. Guided by a mission to eradicate poverty and reduce inequality and exclusion, the UNDP supports countries in developing policies, leadership skills, partnering abilities, institutional capabilities,

⁶³ Ministry of Finance of Ukraine, [KFW](#), *Ministry of Finance of Ukraine*, accessed 1 January 2024.

⁶⁴ Deutsche Gesellschaft für Internationale Zusammenarbeit, [Ukraine](#), *Deutsche Gesellschaft für Internationale Zusammenarbeit*, accessed 10 December 2023.

⁶⁵ Ukraine – Local Empowerment, Accountability and Development with Europe, [Empowering Municipalities in Ukraine](#), *Ukraine – Local Empowerment, Accountability and Development with Europe*, accessed 10 January 2024.

⁶⁶ Alice Smahina, [Mastering project implementation in communities: nine essential steps for turning ideas into reality](#), *Rubryka*, 16 October 2023.

⁶⁷ United Nations Development Programme in Ukraine, [Funding and delivery](#), *United Nations Development Programme in Ukraine*, accessed 10 January 2024.

and building resilience in order to sustain development results. By the end of 2023, it had assisted the Ukrainian government in developing a total of 27 projects.

The United States Agency for International Development (USAID)⁶⁸ works in the sphere of international development and humanitarian efforts to save lives, reduce poverty, strengthen democratic governance and help people progress beyond assistance.

USAID's 2019–2024 Country Development Coordination Strategy calls for a specific focus on anti-corruption efforts, countering the impacts of Russia's aggression, and promoting economic development and energy security in Ukraine. USAID will also continue to support efforts to strengthen democracy and good governance, improve health care systems, and mitigate the effects of the conflict in eastern Ukraine. Since Russia's full-scale invasion, USAID has provided USD 9.88 billion in development and humanitarian assistance. Official USAID solicitations occur only through www.grants.gov and www.fbo.gov.

Bilateral support

The Ukraine Support Tracker⁶⁹ lists and quantifies military, financial and humanitarian aid promised by governments to Ukraine between 24 January 2022 and, currently, 31 October 2023. It covers 41 countries, specifically the EU Member States, other members of the G7, as well as Australia, South Korea, Türkiye, Norway, New Zealand, Switzerland, China, Taiwan, India, and Iceland. The database is intended to support a facts-based discussion about support for Ukraine.

Newly committed aid reached a new low between August and October 2023, reflected in an almost 90 per cent drop compared to the same period in 2022. The value of new aid packages in the period between August and October 2023 totalled just EUR 2.11 billion, the lowest amount since January 2022. The main group of active donors that remain are individual European countries, such as Croatia, Finland, Germany, Ireland, Lithuania, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland, as well as NATO countries like Canada and the United Kingdom. Additionally, a number of multi-year programmes, previously pledged on a large scale, provide Ukraine with reliable financial resources.

Between January 2022 and October 2023, the countries that provided the most aid to Ukraine relative to their GDP were Norway, Lithuania, Estonia, Latvia, Denmark, Poland, Slovakia, Finland, the Czech Republic, Sweden, Germany, the United Kingdom, and Croatia (Annex 5).

In December 2023, Finland presented a national plan for the country's participation in Ukraine's post-war reconstruction. The plan aims to provide Finnish companies with the necessary financing and advisory services required to participate in this large-scale reconstruction project. The first part of the plan presents a series of financial decisions that will contribute to market research, trade, and investment in Ukraine. For instance, the capital of the development financier Finnfund will increase by EUR 25 million in a bid to target more extensive investments in Ukraine. The second part of the plan, due to commence in 2024, will focus

⁶⁸ United States Agency for International Development, [Ukraine](https://www.usaid.gov/our-work/countries/ukraine), *United States Agency for International Development*, accessed 10 January 2024.

⁶⁹ Kiel Institute for World Economy, [Ukraine Support Tracker](https://www.kiel-institute.org/ukraine-support-tracker), *Kiel Institute for World Economy*, 7 December 2023.

on the participation of Finland's central government and stakeholders in Ukraine's reconstruction through development cooperation funds.⁷⁰

The practice of country patronage over the reconstruction of certain territories is spreading in Ukraine. Denmark will provide an aid package for the reconstruction of Mykolaiv worth more than USD 21 million. In accordance with a memorandum of understanding on the partnership between Denmark, Mykolaiv and the Mykolaiv region, signed on 7 March 2023, Ukrainian–Danish cooperation will focus on eight areas. These include infrastructure, good governance, the maritime industry, transportation, urban planning, small and medium-sized business development, youth, and culture. In 2023, Denmark allocated more than USD 100 million for the restoration of the Mykolaiv region.⁷¹

Latvia will also join the rebuilding efforts, allocating a budget of EUR 5 million for projects aimed at restoring the Chernihiv region. EUR 2 million of this total sum will be provided by Latvia's Ministry of Economics for the purchase of equipment and materials for reconstruction projects, with the remaining EUR 3 million provided by the Ministry of Foreign Affairs for the reconstruction of social infrastructure in the Chernihiv region. On 11 January 2024, the Cabinet of Ministers of Ukraine and the government of the Republic of Latvia signed an agreement to cooperate on technical and financial matters. This agreement establishes a legal and organisational framework for collaboration between Ukraine and Latvia regarding the use of international technical assistance.⁷²

Humanitarian aid⁷³

The success of Ukraine's rapid response to recovery problems on the ground is in large part due to the close partnerships forged between municipalities and three leading international humanitarian funds:

The **Adventist Development Relief Agency International (ADRA)** was founded in 1956 as one of the Seventh-day Adventist Church (SDA) branches and has consultative status within the United Nations Economic and Social Council. It delivers relief and development assistance to individuals in more than 130 countries – regardless of their ethnicity, political affiliation, gender, or religious association. By partnering with local communities, organisations, and governments, they aim to deliver culturally relevant programmes and build local capability for sustainable change. The charitable organisation ADRA Ukraine has been officially registered and has been implementing humanitarian projects since 21 February 1993. ADRA Ukraine helps victims of conflicts and disasters, internally displaced persons and their families, orphans, social orphans in orphanages and shelters, and hospital patients. In addition to helping people in crisis locations, ADRA Ukraine also promotes the adoption of healthy lifestyles among disabled and older people.⁷⁴

⁷⁰ Department for Russia, Eastern Europe and Central Asia, [Reconstruction of Ukraine: Finland's national plan, part one](#), Ministry for Foreign Affairs of Finland, 21 December 2023.

⁷¹ Oleksandr Kravchenko, [Данія надасть пакет допомоги для відбудови Миколаєва на понад 21 млн доларів](#), LB.ua, 12 January 2024.

⁷² Vira Perun, [Латвія заклала у бюджеті кошти для відбудови Чернігівщини](#), LB.ua, 12 January 2024.

⁷³ Source acknowledgement: The descriptions in this section are mostly verbatim passages from the web pages of the respective institutions.

⁷⁴ Adventist Development and Relief Agency Ukraine, [About Us](#), Adventist Development and Relief Agency Ukraine, accessed 30 January 2024.

People in Need is a non-governmental, non-profit organisation founded on the ideals of humanism, freedom, equality and solidarity. The organisation's work is based on the personal initiative and activity of hundreds of employees and volunteers, both in the Czech Republic and in the dozens of other countries where they operate, as well as the trust and support they are endowed with by individuals, businesses, governments and international institutions. The organisation was established in 1992 by a group of Czech war correspondents who were no longer satisfied with merely relaying information about ongoing conflicts and began sending out aid. It gradually became established as a professional humanitarian organisation striving to provide aid in troubled regions and support adherence to human rights around the world. Throughout the 30 years of its existence, People in Need has become one of the biggest non-profit organisations in Central Europe. In addition to humanitarian aid and human rights, it now also targets education and helps people living in social exclusion. The organisation continues to operate and provide humanitarian assistance in western and eastern Ukraine, where more than 400 team members are currently working. Across the country, they continue to repair houses, educational institutions, bomb shelters, water systems, and makeshift power supplies.⁷⁵

The **International Committee of the Red Cross (ICRC)** was established in 1863. The ICRC operates worldwide, helping people affected by conflict and armed violence and promoting the laws that protect victims of war. An independent and neutral organisation, its mandate stems essentially from the Geneva Conventions of 1949. The ICRC is based in Geneva, Switzerland and employs over 21,000 people in more than 100 countries. It is funded mainly by voluntary donations from governments and from the National Red Cross and Red Crescent Societies. The ICRC has worked in Ukraine since 2014, and since 24 February 2022, it has massively scaled up its response to meet the rising needs. They have over 800 staff working in eight locations across Ukraine to deliver relief items to displaced people, provide medicines and supplies to health care facilities, and restore water supplies for millions of people, as well as other life-saving activities.⁷⁶

Naturally, it is difficult to evaluate humanitarian aid when it has no monetary value. Nevertheless, from January 2022 to October 2023, the individual countries that provided the most humanitarian aid were the United States, Germany, Switzerland and Japan, along with EU institutions.⁷⁷

⁷⁵ People in Need, [About Us](#), *People in Need*, accessed 30 January 2024.

⁷⁶ International Committee of the Red Cross, [Who We Are](#), *International Committee of the Red Cross*, accessed 30 January 2024.

⁷⁷ Kiel Institute for the World Economy, [Ukraine Support Tracker](#), *Kiel Institute for the World Economy*, accessed 7 December 2023.

Conclusions

This analysis of the involvement of international donors shows that Ukraine receives considerable financial support at the macro level. However, only a very small portion of these funds actually reaches municipalities. International donors and banks have the resources to provide funding for municipalities, helping them to implement sustainable local reconstruction projects. It is important to explore new funding approaches for reconstruction projects that directly support the needs of municipalities, particularly those representing communities in rural and suburban areas.

We are heartened to see that the Ukraine Facility has pledged at least 20 per cent of its grants to support the country's regional and municipal recovery efforts. This welcome development should inspire other donors and international finance institutions to follow suit.

Recommendations for improving partnerships between municipalities and international financial institutions.

Bottlenecks	Potential solutions
The need to co-finance grant projects and the prospect of taking out loans, particularly in foreign currency.	The terms and conditions of any potential funding programme should be carefully reviewed and explained.
The sheer number of international financial partners makes it difficult not only for project applicants to satisfy donor requests and sustainability criteria, but also for civil society to effectively monitor donor activities.	Donor coordination should be improved in order to improve alignment on sustainability and climate criteria as well as transparency and accountability, giving due consideration to the unprecedented challenges of rebuilding and supporting Ukraine on its European path.
Municipalities do not have the resources to create professional project proposals, designs and estimate documentation, which hinders their ability to meet donor demands and attract co-financing.	Large cities have more financial and human resources for co-financing and developing projects. Municipalities, particularly in smaller communities, need either high-quality staff or consultants that can provide technical assistance. It is vital that they receive technical support, capacity-building, and advisory services. Otherwise, they will struggle to co-finance grant projects or may be hesitant to take out loans, resulting in poorly crafted project proposals, designs and financial documentation. By providing these resources, the absorption of funds by all municipalities can be improved.
Projects proposed by municipalities must first undergo a selection process overseen by the Ministry for Restoration before being considered by donors.	Financial institutions favour partnering with the Ukrainian government, as this type of cooperation gives them guarantees on loan repayments and project implementation. The Ministry of Finance and the Ministry for Restoration are responsible for attracting funds from

	international banks. The procedure for selecting municipality projects eligible for financing through a targeted subvention from the state budget is being developed by the Ministry for Restoration. The ministerial and state treasury approval procedures are highly bureaucratic, lengthy, and require greater transparency and public accountability.
There is a noticeable inequality of access when it comes to Ukrainian municipalities seeking direct funding from international banks. Regional centres in Lviv, Kyiv and elsewhere have effectively exhausted the opportunities for infrastructure development.	Until November 2023, the state Budget Code provisions ⁷⁸ only permitted communities in cities to take out loans, excluding communities in rural and suburban areas. Since then, amendments have been adopted, with further enabling legislation set to be approved. In the meantime, donors should take the initiative to reach out and develop programmes for the benefit of smaller municipalities and village communities.
Despite recognising the role of local authorities, very few international financial institutions have dedicated mechanisms in place to support local municipalities.	More direct financial instruments or funds dedicated to supporting municipalities should be considered. These mechanisms can enhance the capacity and skills of municipalities and help them to implement projects that address the needs of citizens and deliver financial sustainability.

Coordination and transparency among international donors must be improved by:

- coordinating national planning for a recovery that involves international financial institutions at the state level to ensure technical assistance organisations work for local plans and strategies;
- requiring international financial institutions to implement environmental and social standards with a focus on donor responsibility;
- improving the participation of civil society organisations;
- recognising the evolving roles of humanitarian organisations in the long-term reconstruction and support of communities as opposed to providing solely emergency assistance; and
- implementing the Ukraine Facility via the Ukraine Plan and EU accession process to usher in speedy reconstruction financing reforms and coordinate international efforts.

⁷⁸ Verkhovna Rada of Ukraine, [Закон України - Про внесення змін до Бюджетного кодексу України щодо забезпечення підтримки обороноздатності держави та розвитку оборонно-промислового комплексу України](#), Verkhovna Rada of Ukraine, 8 November 2023.

Annex 1. International financial institutions⁷⁹

Ukraine became a member of the **World Bank Group** in 1992 and has been collaborating with them since 2017 under the 2017–2021 Country Partnership Framework for Ukraine.

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries, consisting of five institutions with a common commitment to reducing poverty, increasing shared prosperity, and promoting sustainable development:

1. The **International Bank for Reconstruction and Development (IBRD)** supports the World Bank Group's mission by providing financial products such as loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries, as well as by coordinating responses to regional and global challenges. The IBRD offers innovative financial solutions, knowledge, and advisory services (including on a reimbursable basis) to governments at the national and subnational levels.⁸⁰
2. The **International Development Association (IDA)** is a part of the World Bank that provides support to the world's poorest countries. Established in 1960, the IDA aims to reduce poverty by providing zero to low-interest loans (or credits) and grants for programmes that boost economic growth, reduce inequalities, and improve people's living conditions. The IDA complements the World Bank's original lending arm, the IBRD, and supports a range of development activities that aim for equality, job creation, and higher incomes.⁸¹
3. The **International Finance Corporation (IFC)** is the largest global development institution focused exclusively on the private sector. Established in 1956, it aims to help developing countries achieve sustainable growth by financing investment, mobilising capital in international financial markets, and providing advisory services to businesses and governments.⁸²
4. The **Multilateral Investment Guarantee Agency (MIGA)** was established in 1988 as an investment insurance mechanism to encourage confident direct investment in developing countries to support economic growth, reduce poverty and improve people's quality of life. MIGA provides insurance (guarantees) to private foreign investors against non-commercial or political risks related to currency transfer, expropriation, hostilities and civil unrest. It also provides technical assistance to countries in disseminating information about investment opportunities.⁸³
5. The **International Centre for Settlement of Investment Disputes (ICSID)** is an international arbitration institution established in 1966 for legal dispute resolution and consolidation between

⁷⁹ Source acknowledgement: The descriptions in this section are mostly verbatim passages from the web pages of the respective institutions.

⁸⁰ World Bank, [International Bank for Reconstruction and Development](#), *World Bank*, accessed 30 January 2024.

⁸¹ World Bank Group, [What is IDA?](#), *World Bank Group*, last updated 12 September 2023.

⁸² International Finance Corporation, [Who We Are](#), *International Finance Corporation*, accessed 30 January 2024.

⁸³ Multilateral Investment Guarantee Agency, [About Us](#), *Multilateral Investment Guarantee Agency*, accessed 30 January 2024.

international investors and states. The ICSID provides international facilities for the conciliation and arbitration of investment disputes. It works with governments to reduce investment risk.⁸⁴

The **International Monetary Fund (IMF)** is a financial organisation that was founded in 1944. Its membership includes 190 countries. The IMF is considered a specialised UN agency, and its purpose is to regulate foreign exchange and credit relations between member countries. It also assists member countries in cases of balance-of-payment deficits by providing short- and medium-term loans in foreign currency.⁸⁵

The **Nordic Environment Finance Corporation (NEFCO)** is an international financial institution governed by its constituent documents: the Agreement between Denmark, Finland, Iceland, Norway and Sweden concerning the Nordic Environment Finance Corporation; the Statutes of the Nordic Environment Finance Corporation; and the Host Country Agreement between the Government of the Republic of Finland and the Nordic Environment Finance Corporation. In its governance principles, NEFCO promotes sustainability, equality, transparency, predictability, accountability and responsibility.⁸⁶

Annex 2. Quotes from the Rapid Damage and Needs Assessment (RDNA) on the role of local governments in Ukraine's recovery

Second Rapid Damage and Needs Assessment:

The ongoing war has not only resulted in continuing damage to communal infrastructure and widening gaps in service delivery but has also exponentially strained the capacity of local governments. Local governments in Ukraine, responsible for delivering a wide range of services and infrastructure, faced numerous capacity constraints. Overall regulatory functions are at the local level in Ukraine and directly impact the quality of life of citizens, local economic development, and sustainability. With the war, the burden on local governments has greatly escalated, as they are expected to implement emergency recovery works, ensure continued service delivery to residents (despite damaged communal infrastructure and disruptions in service delivery networks), create conditions for resilience, and develop urban recovery plans for coordinated recovery at the local level.⁸⁷

For the municipal sector to recover and in turn facilitate local reconstruction and recovery, the estimated needs amount to USD 5.7 billion... The role of local governments in recovery and reconstruction is vital and goes beyond just municipal assets. Local governments are critical for the implementation, coordination, and planning of measures stipulated by individual functional sectors and line ministries. This reality necessitates an integrated and place-based approach at the local level. In addition, to overcome the likely challenges of resource constraints and unstable cash flow during the recovery period, local governments — especially

⁸⁴ International Centre for Settlement of Investment Disputes, [About ICSID](#), *International Centre for Settlement of Investment Disputes*, accessed 30 January 2024.

⁸⁵ International Monetary Fund, [Home page](#), *International Monetary Fund*, accessed 30 January 2024.

⁸⁶ Nordic Environment Finance Corporation, [Legal framework](#), *Nordic Environment Finance Corporation*, accessed 9 January 2024.

⁸⁷ World Bank, [Ukraine Rapid Damage and Needs Assessment: February 2022 – February 2023](#), *World Bank*, 103, 20 March 2023.

cities — will need to undertake evidence-based identification of prioritized needs and associated sequencing of recovery and reconstruction measures. Local implementation capacity must be enhanced to ensure that recovery and reconstruction efforts can be initiated.⁸⁸

Third Rapid Damage and Needs Assessment:

Beyond strategic prioritization, several key actions in the short term can improve the effectiveness of recovery and reconstruction:

- Accelerate the reform agenda, including the framework of the Government's Ukraine Plan under preparation. This will help foster economic growth, modernize the economy and institutions, and promote strengthening of public sector capacity at the local level, in alignment with the standards and policies of the EU.
- Strengthen public sector capacity to plan, prepare, and deliver recovery and reconstruction activities, through continuous improvements in systems for public finance management, procurement, and strategic and medium-term budget planning. In addition, strengthen the institutional and technical capacities of authorities and relevant stakeholders alongside cross-institutional coordination and cross-sectoral prioritization. The Government's adoption and implementation of the PIM reform roadmap will play a key role in this respect.
- Leverage opportunities for private investment, including through an accelerated agenda of pro-competition reforms and deeper integration with the EU and international markets. Reforms and public interventions that can boost private sector investment and enable the private sector to play a greater role in reconstruction include liberalization of energy prices; privatization of (or private participation in) the transport and banking sectors; public investments in irrigation, and public-private partnerships (PPPs) in a variety of sectors.
- Strengthen the capacity of local authorities in strategic planning, project management, procurement, execution of investments, and stakeholder engagement as well as relevant technical skills to build modern, inclusive, and resilient communities that will thrive.⁸⁹

⁸⁸ Ibid., 104.

⁸⁹ World Bank, [Ukraine Third Rapid Damage and Needs Assessment: February 2022 – December 2023](#), World Bank, 20–21, 14 February 2024.

Annex 3. NEFCO's financing programmes in Ukraine.⁹⁰

Programme	Description	Donors	Number of projects
DemoUkrainaDH	<p>The programme provided funding and technical assistance for projects that demonstrate the benefits of state-of-the-art district heating technology and system solutions. The main objective of the programme was to demonstrate modern and energy-efficient district heating technology to improve energy efficiency and reduce carbon dioxide emissions.</p> <p>As of 2019, the programme is no longer inviting applications for new projects.</p>	Sida, Eastern Europe Energy Efficiency and Environment Partnership (E5P)	23 projects: 11 completed, 11 cancelled, 1 under implementation
Sweden– Ukraine District Heating Programme (SUDH)	<p>The programme was established by NEFCO and Sweden with the vision of supporting energy-efficient district heating in Ukraine that delivers high-quality services with a low environmental impact to its customers. SUDH offers funding for sustainable long-term projects, creating a significant positive impact on Ukrainian district heating systems. Funding for project implementation was provided by NEFCO by way of loans.</p>	Sida	<p>Six projects:</p> <p>The progress of three projects in Poltava, Vinnytsia, and Brovary currently depend on the situation in Ukraine returning to normal. Implementation of a project in Mariupol began in December 2021, but the project was discontinued after the site was destroyed during Russia's invasion. A project in Dobropillia–Novodonetske was cancelled after no suitable financing was found, and a project in Chuhuiv</p>

⁹⁰ The information in this table is taken from: Nordic Environment Finance Corporation, [Other financing activities in Ukraine](#), *Nordic Environment Finance Corporation*, accessed 12 January 2024.

			was rejected by the city.
Energy-Saving Credits (ESC)	The loan programme offered small-scale financing to Ukrainian municipalities for the refurbishment of public buildings, such as day-care centres, schools and healthcare institutions, and the modernisation of street lighting.	The loan programme for municipalities	Over 80 projects
Finland-Ukraine Trust Fund (FUTF)	<p>The FUTF provided grant financing to promote cooperation between the two countries in the fields of energy efficiency, renewable energy, and alternative types of energy sources in power and heat generation and in district heating networks since 2018 to support the green energy transition.</p> <p>The fund focused on renewable energy and waste-to-energy, power and heat generation, district heating networks, energy efficiency in buildings and industry, IT solutions and distribution networks, and the development of partnerships in the context of multilateral development programmes and projects funded by international financial institutions.</p> <p>Grant funding was provided to both public and private demonstration projects implemented by small and medium-sized Ukrainian enterprises, or in the form of technical assistance.</p>	The FUTF programme is financed by the Ministry for Foreign Affairs of Finland and managed by NEFCO	In total, some 30 demonstration projects have been financed by the fund.
Nordic Initiative for Energy Efficiency and Humanitarian Support	<p>Between 2014 and 2022, the initiative financed energy efficiency improvements in public buildings in five regions in eastern Ukraine.</p> <p>In October 2014, the foreign ministers of the Nordic countries, on the initiative of Norway, decided to establish a grant-financed programme for urgent investments needed to achieve quick and visible results for reconstruction in</p>	The initiative is financed by Finland, Norway, Sweden and the Nordic Environmental Development Fund, which includes contributions	The programme has grant-financed some 40 projects, including 33 completed projects for urgent renovations of public buildings and street lighting systems in over 20 cities.

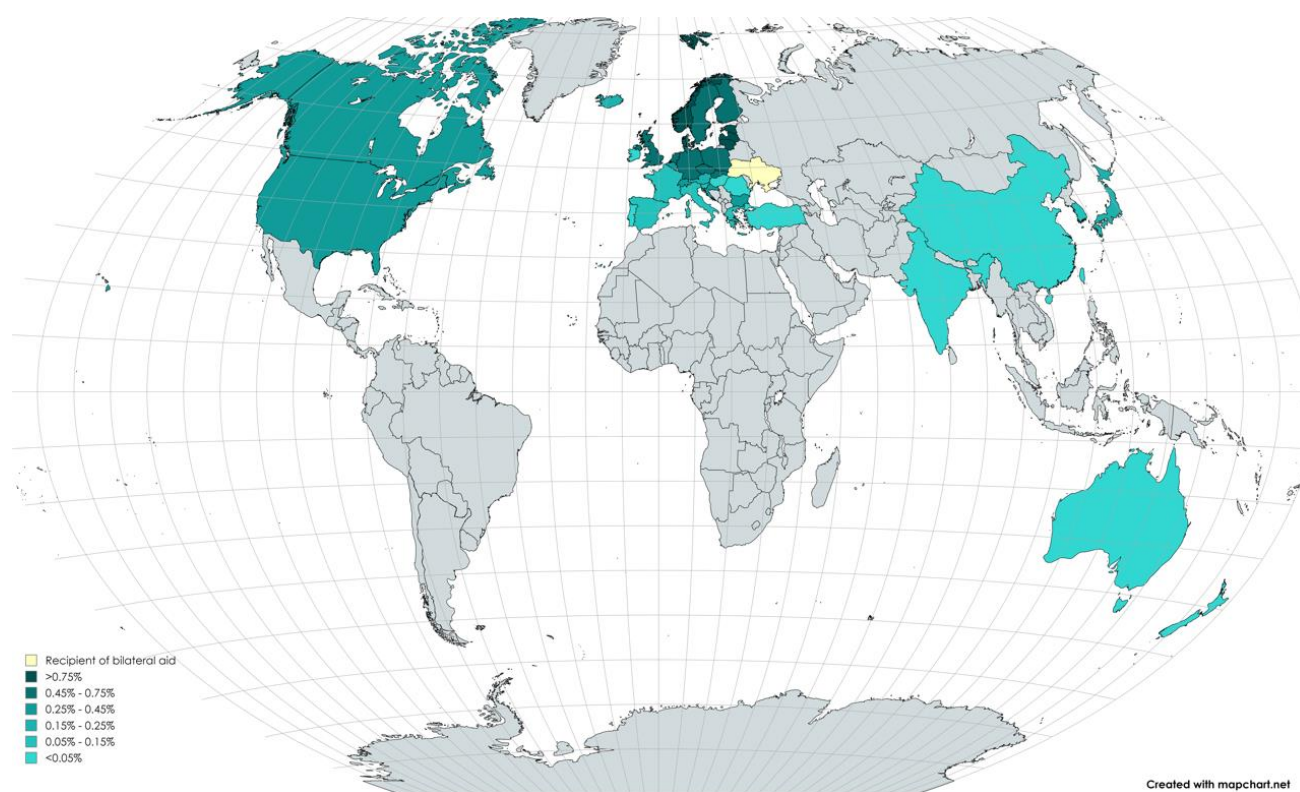
	eastern Ukraine. The NIU programme became operational the same year. The emphasis was initially on fully grant-financed projects in the five regions closest to the conflict zone.	from all Nordic countries, NEFCO and the Nordic Council of Ministers, and for which NEFCO is the implementing agency.	
Norway-Ukraine Energy Efficiency Initiative	<p>The initiative was established in 2018 between NEFCO and the Norwegian Ministry of Foreign Affairs with the aim of scaling up the use of external municipal financing to achieve energy efficiency in public buildings and strengthening self-governance and sustainable procurement practices.</p> <p>The initiative focused on:</p> <ul style="list-style-type: none"> the renovation of socially important municipal buildings; demonstration projects that benefit vulnerable groups, including internally displaced persons from conflict areas in southeastern Ukraine; reducing the consumption of energy generated from fossil fuels, reducing carbon dioxide emissions and contributing to increased energy security; enabling municipalities to govern themselves by attracting external financing and making local investment decisions; and fighting corruption through best practices in procurement and project implementation. <p>The programme provided blended funding consisting of loans and grants, as well as technical assistance and project support for small and medium-sized Ukrainian municipalities.</p>	The initiative is financed by the Norwegian Ministry of Foreign Affairs and is managed by NEFCO.	10 projects

Annex 4. Regulatory framework governing the implementation of projects in Ukraine supported by international financial institutions

The regulation framework governing the implementation of projects in Ukraine, supported by international financial institutions, includes the following legislation:

- Budget Code of Ukraine;
- Law of Ukraine dated 3 June 1992, No. 2402-XII: On Ukraine's Accession to the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association, and the Multilateral Investment Guarantee Agency;
- Law of Ukraine dated 29 June 2004, No. 1906-IV: On International Treaties of Ukraine;
- Law of Ukraine dated 7 February 2006, No. 3392-IV: On Ratification of the Framework Agreement between Ukraine and the European Investment Bank;
- Laws of Ukraine on the state budget for the relevant year;
- Decree of the President of Ukraine dated 14 July 1992, No. 379/92: On Ukraine's membership in the European Bank for Reconstruction and Development;
- Resolution of the Cabinet of Ministers of Ukraine dated 5 September 2007 No. 1090: Certain Issues of Implementation of Budget Programmes Aimed at Implementation of Economic and Social Development Projects Supported by the International Bank for Reconstruction and Development;
- Resolution of the Cabinet of Ministers of Ukraine dated 27 January 2016, No. 70: On the Procedure for Preparing, Implementing, Monitoring and Completing Implementation of the Economic and Social Development Projects of Ukraine Supported by the International Financial Institutions;
- Order of the Ministry of Finance of Ukraine dated 14 July 2016, No. 616: On Approval of the Procedure for Assessment of the Financial Condition of a Potential Beneficiary of an Investment Project to be Implemented on a Financially Self-Sufficient Basis, as well as Determination of the Type of Collateral for Servicing and Repayment of a Loan Provided at the Expense of International Financial Institutions, which will be Serviced at the Expense of the Beneficiary. Registered with the Ministry of Justice of Ukraine on 5 August 2016 under No. 1095/29225;
- Order of the Ministry of Finance of Ukraine dated 8 February 2019, No. 53: On Approval of the Procedure for Maintaining the Register of Economic and Social Development Projects of Ukraine Supported by International Financial Institutions. Registered with the Ministry of Justice of Ukraine on 6 March 2019 under No. 230/33201.
- Procurement under the International Bank for Reconstruction and Development's Accelerating Private Investment in Agriculture Program (Loan Agreement No. 8973-UA dated 27 August 2019).

Annex 5. Government support for Ukraine: Bilateral aid as a percentage of GDP⁹¹



⁹¹ Kiel Institute for World Economy, [Ukraine Support Tracker](#), Kiel Institute for World Economy, 7 December 2023.