

# CONFISCATION OF RUSSIAN SOVEREIGN ASSETS:

UKRAINE RESTITUTION AND RECONSTRUCTION BANK (URRB)



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## *Background for problem setting*

Since Russia's full-scale invasion began, Ukraine has endured severe economic losses. As of February 2024, the World Bank estimated damages at \$486 billion<sup>1</sup>, impacting vital infrastructure, housing, and economic stability. Russia's intensified targeting of Ukraine's energy facilities during spring and summer 2024 has further increased this toll that is not yet accounted for in the World Bank's latest calculations.

On November 14, 2022, the UN General Assembly adopted Resolution ES-11/5<sup>2</sup>, affirming that Russia must be held accountable for violations of international law against Ukraine, including the obligation to make reparations for damages, injuries, and losses inflicted. However, as the war continues, Russian "scorched earth" tactics and deliberate economic destruction only compound these losses.

To ensure Ukraine's victory, comprehensive economic actions must be directed at Russia now to pressure it into ceasing aggression and withdrawing from Ukraine, as well as to restrict its capacity to sustain prolonged warfare. Yet, immobilized Russian Central Bank assets worth approximately \$300 billion remain untouched, despite the solid justification by the prominent legal experts that the confiscation of these assets would constitute a lawful countermeasure under international law, supporting Ukraine's right to reparations.

In 2024, Ukraine's partners did make a number of important steps towards using Russian assets for Ukraine's self-defense and recovery, yet in practice they mostly regarded windfall profits only, still short of full confiscation. The US Congress adopted the REPO Act which is still far from the launching of implementation, and G7 countries and EU agreed to issue Ukraine Extraordinary Revenues Acceleration Loans (ERA

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<sup>1</sup> Updated Ukraine Recovery and Reconstruction Needs Assessment Released. Press release. World Bank. Kyiv, February 15, 2024.

<https://www.worldbank.org/en/news/press-release/2024/02/15/updated-ukraine-recovery-and-reconstruction-needs-assessment-released>

<sup>2</sup> Resolution adopted by the General Assembly on 14 November 2022, ES-11/5. Furtherance of remedy and reparation for aggression against Ukraine.

[https://www.securitycouncilreport.org/atf/cf/%7B65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/a\\_res\\_es\\_11\\_5.pdf](https://www.securitycouncilreport.org/atf/cf/%7B65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/a_res_es_11_5.pdf)

Loans) worth \$50 billion<sup>3</sup> that Ukraine should start receiving by the end of 2024. Meanwhile, the funding of this scale significantly falls behind Ukraine's actual needs.

Some extra arguments against confiscating Russian assets for Ukraine center on doubts about Ukraine's ability to manage such a large influx of funds and concerns about transparency and accountability, as well as the possible impact on European in general and Belgian in particular financial markets.

This brief presents the solution to address these issues, detailing the need to establish a new institution with the optional title '*Ukraine Restitution and Reconstruction Bank*' that would serve as a compensation fund within the existing international Compensation Mechanism and be simultaneously tasked with maximizing the profits on confiscated assets in order to ensure the coverage of Ukraine's pressing needs primarily in defense. The bank will have necessary safeguards on board to address the financial stability fears of the European states.

## ***Legal grounds for seizure of the Russian sovereign assets***

### **I. The doctrine of countermeasures**

Top international law professors made a comprehensive legal case<sup>4</sup> for asset seizure under the established *doctrine of state countermeasures*. "This permits states lawfully to carry out measures – that would otherwise be illegal – against a state that has violated fundamental rules of international law, in order to induce it to cease its unlawful conduct or to comply with its obligation to compensate states injured by this conduct. The seizure of Russian state assets and their transfer to Ukraine would be a proportionate countermeasure." So far, only the US and Canada have currently introduced the confiscation as a countermeasure doctrine into its law, which hasn't been yet implemented in practice.

### **II. US REPO Act**

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<sup>3</sup> G7 Leaders' Statement on Extraordinary Revenue Acceleration (ERA) Loans. The White House. October 25, 2024.

<https://www.whitehouse.gov/briefing-room/statements-releases/2024/10/25/g7-leaders-statement-on-extraordinary-revenue-acceleration-era-loans/>

<sup>4</sup> On Proposed Countermeasures Against Russia to Compensate Injured States for Losses Caused by Russia's War of Aggression Against Ukraine. Research papers, IISS. May 24, 2024.

<https://www.iiss.org/research-paper/2024/05/on-proposed-countermeasures-against-russia-to-compensate-injured-states-for-losses-caused-by-russias-war-of-aggression-against-ukraine/>

The United States has approved legal grounds for seizing Russian sovereign assets, which, according to the public part of the US Treasury report<sup>5</sup> is at least \$5 billion placed under the American jurisdiction. However, part of the report is classified, and it may indicate a much larger amount of Russian assets immobilized in correspondent accounts denominated in the U.S. dollars.

Under REPO, the United States has to establish a separate account Ukraine Support Fund, which has to receive all confiscated assets. From this fund money could be transferred – to “an international body or mechanism charged with determining compensation and providing assistance to Ukraine”. It is envisioned that the Common Ukraine Fund will collect all the seized assets placed in other jurisdictions.

A key requirement to this international mechanism, which REPO calls the *Common Ukraine Fund*, is that “the institution housing the Common Ukraine Fund has a plan to ensure transparency and accountability for all funds transferred to and from the Common Ukraine Fund”. The Common Ukraine Fund as a common international compensation mechanism has to be established in consultation with international partners and Ukraine.

Under REPO Act it is envisioned that funding from Common Ukraine Fund through the international compensation mechanism should be spent on the following: a) reconstruction and rebuilding efforts in Ukraine, b) to provide humanitarian assistance to the people of Ukraine, c) such other purposes as the Secretary determines directly and effectively support the recovery of Ukraine and the welfare of the people of Ukraine.

### III. EU framework on windfall profits

In May 2024 the EU Council decided<sup>6</sup> to use net profits stemming from unexpected and extraordinary revenues accruing to central securities depositories (CSDs) in the EU, as a result of the implementation of the EU restrictive measures, for the support of Ukraine. These funds are intended to be used for military support, Ukrainian defense industry and reconstruction.

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<sup>5</sup> Report pursuant to section 104(a)(2) of the Rebuilding Economic Prospective and Opportunity for Ukrainians Act P.L. 118-50, Division F. U.S. Department of Treasury, Office of Foreign Assets Control. October 30, 2024.

<sup>6</sup> Extraordinary revenues generated by immobilised Russian assets: Council greenlights the use of net windfall profits to support Ukraine's self-defence and reconstruction. Press release. Council of the EU. May 21, 2024.

<https://www.consilium.europa.eu/en/press/press-releases/2024/05/21/extraordinary-revenues-generated-by-immobilised-russian-assets-council-greenlights-the-use-of-windfall-net-profits-to-support-ukraine-s-self-defence-and-reconstruction/>

The windfall profits are not generated on the assets immobilized in banks or other financial institutions other than central securities depositories which is primarily Belgian depository Euroclear.

Upon the insistence of the government of Belgium, the EU Council regulation doesn't apply retroactively, thus not covering windfall profits earned in 2022-2023, which is equal to 3,8 billion euro after the taxation. This money was reserved for backing the legal risks which may be prospectively faced by Euroclear in future.

With regards to the Russian immobilized assets, Euroclear's goal is not maximizing the profits, but saving them until the future of this money is decided.

From 2025 on, the windfall profits will be used to pay off the G7 program named ERA loans.

#### IV. A compromise decision of G7: ERA loans

On June 14, 2024, G7 agreed<sup>7</sup> to issue \$50 billion "Extraordinary Revenue Acceleration (ERA) Loans for Ukraine" serviced and repaid by future flows of extraordinary revenues stemming from the immobilization of Russian Sovereign Assets held in the European Union and other relevant jurisdictions." The money initially was intended to be provided to Ukraine by the end of 2024 in the form of grants.

Eventually, G7 countries decided to do several loans instead of one because they could not agree on a joint vehicle to issue it.

In autumn, the EU decided that windfall profits will be paying back for the ERA Loans through the Ukraine Loan Compensation Mechanism. In October 2024 the Council of the EU and the European Parliament adopted<sup>8</sup> the Regulation establishing the legal framework and conditions for the exceptional microfinancial assistance (MFA) loan in amount of 35 billion euro maximum together with the Ukraine Loan Cooperation Mechanism (ULCM), intended to support Ukraine in repaying the MFA loan and any other loans provided through bilateral agreements with EU and non-EU states and which the Commission finds eligible. This mechanism shall be ensured by the mentioned windfall profits. The mentioned Regulation establishes the general

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<sup>7</sup> Apulia G7 Leaders' Communiqué.

<https://www.consilium.europa.eu/media/fttjqncg/apulia-g7-leaders-communication.pdf>

<sup>8</sup> Regulation of the European Parliament and of the Council establishing the Ukraine Loan Cooperation Mechanism and providing exceptional macro-financial assistance to Ukraine. Brussels, 23 October 2024 (OR. en) 2024/0234(COD). <https://www.consilium.europa.eu/media/zozgxuvw/pe00096en24.pdf>

framework and key conditions for the MFA Loan and the ULCM, the technicalities shall be specified in memorandum of understanding (MoU) and respective international agreements between Ukrainian authorities and the European Commission.

At the same time of the end of October, the US officially approved<sup>9</sup> its plans to provide a \$20 billion share of the ERA loan, however, the issue of the possibility of using these funds for Ukrainian defense is still unclear. The UK announced<sup>10</sup> granting Ukraine the \$2,9 billion for the military needs. Also, by the end of October 2024, Japan agreed<sup>11</sup> to make its contribution to the ERA loans of \$3 billion.

However, the accordance of the technical details and particular arrangements is still far from being finalized. The money initially were intended to be provided to Ukraine by the end of 2024 in the form of grants, however, as of November 2024 the process of loans legal execution has only started and the EU Regulation on the MFA loan/ULCM prescribes that other bilateral loans may be distributed to Ukraine by the end of 2027.

### ***International Compensation Mechanism for Ukraine***

The establishment of the international mechanism for the compensation for damage, loss and injury caused to Ukraine as a result of the armed aggression of the Russian Federation (hereinafter – Compensation Mechanism) was voted for by the majority of the UN members and proposed for establishment by the UNGA Resolution as of 14 November 2022. It is planned as the international mechanism acting on the basis of the multilateral agreement and composed of the several combined institutions.

One of such institutions is the Register of Damage for Ukraine, intended to serve as the record of claims submitted by individuals, entities, and the State of Ukraine for compensation for the damage, loss, and injury inflicted by the Russian aggression, Compensation Fund, intended to collect the funds aimed to aggregate the funds collected based on sanctions and countermeasures applied against Russian Federation, including perspective confiscation of the \$300 billion of Russian sovereign assets as well as assets belonging to the private persons responsible for sponsoring, organizing and justifying aggression. Finally, the Commission for the Assignment of

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<sup>9</sup> U.S., allies finalize \$50 billion Ukraine loan backed by Russian assets. The Washington Post. October 23, 2024. <https://www.washingtonpost.com/business/2024/10/23/ukraine-loan-yellen-russia/>

<sup>10</sup> Britain to pay \$2.9 billion into G7 loan for Ukraine to buy weapons. Reuters. October 22, 2024. <https://www.reuters.com/world/britain-pay-29-billion-into-g7-loan-ukraine-buy-weapons-2024-10-21/>

<sup>11</sup> Japan to offer \$3.0 billion for G7 Ukraine loan package. The Mainichi. October 29, 2024. <https://mainichi.jp/english/articles/20241029/p2g/00m/0in/002000c>

Payments or Claims Commission shall exercise<sup>12</sup> functions of the authority reviewing claims, submitting payments and awarding payments.

Currently, the first component of the International Compensation Mechanism, the Register of Damage, has been established in Hague under the auspices of the Council of Europe in May 2023<sup>13</sup> and has successfully launched its activities from 2 April 2024. As of now it is open for receipt of claims based on destruction of the residential moving property and is preparing for the launch of 12 new categories of claims, including death and disappearance of immediate family members, involuntary internal displacement, destruction of Ukraine's infrastructure etc.

However, the other two mandatory components of the mechanism are still not established. The active work on establishment of the Claims Commission has started is currently in progress, the approval of the legal instrument regulating its work is anticipated for November-December 2024 while the actual launch of its activities will start in 2025 at the earliest. The anticipated timeframes of launching the Compensation Fund as the final component of the mechanism have not yet been actively discussed in public sources.

Establishing such commissions is based on real historical precedents, including the United Nations Compensation Commission (UNCC) established in 1991 under the UN Security Council Resolution No. 687<sup>14</sup>, dealing with the Eritrea-Ethiopia Claims Commission (EECC) established in 2000 according to the Algiers Agreement<sup>15</sup>, and the Iran-United States Claims Tribunal (IUSCT) established in 1981 according to the Algerian Claims Settlement Declaration<sup>16</sup>.

## ***The weak points of existing instruments of funding for Ukraine***

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<sup>12</sup> War Damage Compensation and Restoring Justice: Event on Ukraine Held on the Sidelines of the UN General Assembly. Official website of the President of Ukraine Volodymyr Zelenskyy. October 25, 2024. <https://www.president.gov.ua/en/news/vidshkoduvannya-zbitkiv-vid-vijni-ta-vidnovlennya-spravedliv-94049>

<sup>13</sup> Resolution CM/Res(2023)3 establishing the Enlarged Partial Agreement on the Register of Damage Caused by the Aggression of the Russian Federation against Ukraine. Ministers' Deputies. The Council of Europe. May 12, 2023.

[https://rd4u.coe.int/documents/358068/372244/CM\\_Res%282023%293+-+Statute.pdf/2cebbb65-c86d-61c6-06c2-dca378ecd900?t=1708702115594](https://rd4u.coe.int/documents/358068/372244/CM_Res%282023%293+-+Statute.pdf/2cebbb65-c86d-61c6-06c2-dca378ecd900?t=1708702115594)

<sup>14</sup> Resolution 687 (1991) Adopted by the UN Security Council at its 2981st meeting. April 3, 1991. <https://uncc.ch/sites/default/files/attachments/documents/res0687.pdf>

<sup>15</sup> Eritrea-Ethiopia Claims Commission. Permanent Court of Arbitration. <https://pca-cpa.org/en/cases/71/>

<sup>16</sup> Declaration of the Government of the Democratic and Popular Republic of Algeria concerning the Settlement of Claims by the Government of the United States of America and the Government of the Islamic Republic of Iran (Claims Settlement Declaration). January 19, 1981.

<https://iusct.com/wp-content/uploads/2021/02/2-Claims-Settlement-Declaration.pdf>

Simultaneously, the audit of existing international support mechanisms reveals a significant lag in meeting Ukraine's current and evolving needs (*annex 1*). First and foremost, these mechanisms fall short in funding defense investments and do not sufficiently incorporate Ukrainian decision-making. Moreover, several institutions are still having Russian influence over decision-making. In addition, existing funding channels lack Ukrainian agency.

While in 2022, the primary goal of foreign military aid was to provide Ukraine with hardware from partner countries' stockpiles, by 2024, Ukraine's defense industries have advanced considerably — in some areas, such as drone production, even surpassing Western capabilities. This development has led to a situation where on some types of weapons the priorities of the needs shifted from arms supplies to funding and investment since production capacities far exceed the money available. For instance, Ukraine's Ministry of Strategic Industries reports that in 2024, Ukrainian weapons manufacturers reached a production capacity of \$20 billion, while available funding was only \$10 billion, resulting in a shortfall of at least \$10 billion<sup>17</sup>.

Investing funds into Ukrainian defense industries addresses several issues simultaneously. First, it equips Ukraine with essential weaponry that is more affordable, easier to maintain, repair, and faster to produce compared to Western-manufactured options. Ukrainian manufacturers also maintain strong communication with the military, allowing for quick testing and improvement of weapons and technology based on frontline feedback. This approach not only meets urgent defense needs but also supports Ukraine's economy by creating jobs and reducing dependency on foreign aid in the mid to long term.

However, right now effective mechanisms of ensuring systemic foreign funding into Ukrainian defense industries are missing. Countries like Denmark are pioneering on the way, but significantly more funds are needed.

Maximized profits on confiscated assets can become a source for such systemic funding for the Ukrainian defense and other urgent needs, including for procuring weapons from American and European producers for Ukraine. An effective institution to administer such foreign funding is the recently established Defence Procurement Agency that has independent and efficient leadership and the supervisory board.

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<sup>17</sup> Kamyshyn: Ukraine can produce weapons worth of \$10 billion if funding is available. Suspilne news. May 6, 2024. <https://suspilne.media/739669-kamisin-ukraina-moze-virobiti-zbroi-se-na-10-mlrd-dolariv-akso-bude-finansuvanna/>

## ***Proposed Solution: Ukraine Restitution and Reconstruction Bank (URRB)***

A solution we offer is to establish the Ukraine Restitution and Reconstruction Bank (URRB) which will house the Common Ukraine Fund mentioned in the REPO Act. Using the experience of implementing financial mechanisms under the Marshall Fund after WWII in the form of the KfW bank there has to be established a separate financial institution with sole focus on reconstruction and restitution of Ukraine after all damages caused by the illegal unprovoked military aggression by Russian Federation.

Initial financing for URRB could come from the US confiscating around \$5billion of immobilized Russian assets in its jurisdiction with the other countries, including the European, to follow the lead.

URRB will function as a development bank with a targeted yet broad mandate limited to Ukraine, with Ukrainian representation and participation also mandated.

### **Goals of the bank**

- Executing the actual financial compensation for the victims of Russian aggression based on international compensation mechanism and ensuring the reconstruction of Ukraine;
- Supporting Ukrainian defense industries and funding the procurement of Western-made weapons for Ukraine (*using profits on immobilized Russian assets*);
- Setting top down development objectives for Ukraine, monitoring and evaluating development objectives and projects;
- Supporting in stabilization of Ukrainian economy;
- Providing grants through the mechanisms and staffing utilized by the KfW<sup>18</sup>, World Bank or any other international development bank, establishing standard practices in Ukraine for development and reform;
- Cooperating with the Ukrainian state banks for providing cheap loans for Ukrainian SMEs, municipalities, strategic state owned enterprises etc;
- Partnering in investments with private sector and other entities;
- Borrowing on its own behalf;
- Acting as a reform champion in Ukraine.

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<sup>18</sup> KfW: Our financial products.

<https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Tasks-and-goals/Unsere-Finanzprodukte/>

The principal of the Russian sovereign assets to be used for compensation to the victims of the Russian aggression and the reconstruction of Ukraine. However, the profits on those assets can be boosted significantly and used for Ukraine's defense, both for buying weapons from the Ukrainian manufacturers and foreign weapons (e.g. French Caesar howitzers from the first tranche on windfall profits in 2024<sup>19</sup>).

There is no doubt that the process of compensation will be lengthy and take a lot of time. While the International Register of Damage was launched in 2024, the Claims Commission is expected to start working in 2025, and the process of reviewing the claims will require significant time. The precedent of operating of the like Commissions, the UNCC established in 1991, made the final payment in January 2022<sup>20</sup> having processed 2,7 million claims in general, while, according to the careful official estimation, the Register of Damage of the international compensation mechanism for Ukraine is expecting at minimum from 6 to 10 million claims<sup>21</sup>.

Overall, that means that before all money can be distributed as compensation to the victims or used for reconstruction of Ukraine, they can and should generate a significant amount of money for Ukraine's self-defense and procurement of weapons from Ukrainian manufacturers and foreign, like the US.

#### *How can profits on the Russian assets be maximized?*

- Presently, not all immobilized Russian funds generate windfall profits that are used for Ukraine. According to the decision of the EU, that regards only *unexpected and extraordinary revenues accruing to central securities depositories*, which is Euroclear that immobilized Russian assets worth of 191 billion<sup>22</sup>. That means that assets immobilized in other financial institutions within the EU, or assets immobilized in other G7 countries do not generate windfall profits for Ukraine. Overall, that means that more than one third of Russian assets presently do not work for Ukraine. Pulling this money altogether in one institution will increase the principal for investment and therefore increase profits.
- The central securities depositories like Euroclear do not have the goal of maximizing the profits on immobilized Russian assets. Instead, they need to keep this money safe until its further destiny is decided. Presently, Euroclear largely keeps that money on deposits in the central banks of the developed

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<sup>19</sup> Russian assets: 300 million euro to the Ministry of Armed Forces to equip Ukraine. September 6, 2024. <https://lignesdedefense.ouest-france.fr/avoirs-russes-300-millions-au-ministere-des-armees-pour-equiper-lukraine/>

<sup>20</sup> UNCC United National Compensation Mechanism. <https://uncc.ch/>

<sup>21</sup> Frequently Asked Questions. Register of Damage for Ukraine. <https://rd4u.coe.int/en/faq/#%7B%22379613%22%5D%7D>

<sup>22</sup> <https://www.ft.com/content/50e7dcd2-5dbf-4000-9914-b791e40f4a9d>

countries. Meanwhile, unlike Euroclear, the URBB will have the goal of maximizing the profits, e.g. through investing in higher-yielding assets. As a prominent British investment banker and finance expert Timothy Ash points, “a portfolio of the emerging markets assets could generate a 10% yield but \$30 billion-plus per annum for Ukraine.”<sup>23</sup>

- Combined with the previous approach, using the existing ERA Loan financial engineering mechanism, much larger money can be generated at once by advancing future profits.
- In case if profits are not sufficient for the immediate needs of funding defense and procuring weapons necessary for Ukraine or other urgent priorities, the URRB can invest part of the principal into the recovery/victory bonds issued by Ukraine, as was also suggested by Timothy Ash<sup>24</sup>.

### **Location and composition**

One of the key concerns from all multinational partners on providing significant amounts of seized assets straight to the Ukrainian government is weak Ukrainian institutions, which can't ensure proper oversight, control and accountability.

Simultaneously, most of the immobilized funds are placed in Belgium at the accounts of Euroclear. One of the key arguments of Belgian decision makers against seizure of the assets is the reluctance to move these funds out of their jurisdiction. Some still see these funds as a possible diplomatic leverage in negotiations with Moscow.

Therefore, as a compromise, the URRB could be placed in Belgium, and be composed of the Board of Directors representing the EU, G7 countries and Ukraine. Placement of the URRB in Belgium achieves 3 strategic goals:

- Advocacy argument: Belgium and EU to conduct seizure of the principal of Russian sovereign assets as the funds will stay in their jurisdiction, backed by legal justification for international crimes restitution and compensation for war damages established by Compensation mechanism.
- Building capacity: Transparency and accountability of the usage of funds through an independent Board, while also providing to Ukraine agency in the form of its Board members and Ukrainian desk officers.

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<sup>23</sup> Opinion: Answering your burning questions on Russia's frozen assets. Timothy Ash. Kyiv Independent. April 9, 2024.

<https://kyivindependent.com/opinion-answering-your-burning-questions-on-russias-frozen-assets/>

<sup>24</sup> Opinion: Answering your burning questions on Russia's frozen assets. Timothy Ash. Kyiv Independent. April 9, 2024.

<https://kyivindependent.com/opinion-answering-your-burning-questions-on-russias-frozen-assets/>

- Building sustainability: international compensation body specific to the intent of REPO and acceptable to the US as financial arm for Common Ukraine Fund capable of generating revenue through banking activities, moving from a pure grant mechanism to a grant-loan mechanism to transition Ukraine to self-sufficiency and inclusion in the European Union.

### **Ukrainian representation and agency**

- Ukraine's Minister of Finance, Minister of Economy and Minister for Reconstruction will be founding Board members of the URRB alongside their counterparts from EU & G7 as appropriate.
- The CEO of the URRB shall be Ukrainian, selected and appointed by the Board
- The Board should finalize the charter of the URRB, which is to state clear development goals in accordance with the mechanisms provided by the IMF, World Bank, and accession protocols of the European Union relating to membership criteria previously agreed on in the Maastricht Treaty. This should be set on a timeline objective of a defined year and month (tentatively 2030 for the purpose of this paper).
- All URRB development goals will be subject to approval from the Board and matched to current Ukrainian ministry compositions to most effectively connect to Ukrainian government institutions.
- URRB operating from Brussels should by Ukrainian law be empowered to have subsidiary financial institutions in Ukraine. One such potential subsidiary may be one of the state-owned Ukrainian banks or the MotorBank confiscated by the Ministry of Justice in the sanctions case against Vyacheslav Boguslayev. Subsidiaries in Ukraine should be reformed under IMF and European standards, recapitalized and placed under a caretaker board composed of G7, EU, and Ukrainian government principals subject to a sunset clause for reversion of the board to a Ukrainian trust appointed by the Verkhovna Rada of Ukraine.
- The Ministry of Defense should work with state-owned banks in Ukraine for the provision of services to Ukrainian veterans and their families, subject to preferential rates on home loans, business loans, and other services.
- Not less than 50% of desk officers in URRB should be Ukrainian nationals selected through competitive mechanisms and a clearance process approved by representatives of the United States and European Union. The selection should be further vetted by an advisory board of multinational transparency and justice nonprofit organizations, to include anti-corruption experts of the VRU and Ukrainian civil society as identified. All Ukrainian desk officers should be considered members of the civil service of Ukraine subject to a 2-year probationary period before investiture of benefits.

- All proposed grants, loans, and other activities of the URRB should have at least two Ukrainian desk officers assigned as Grant Officer Representatives and Compliance Officers respectively.

## Annex 1. The overview of existing international support mechanisms for Ukraine.

<u>Mechanism/ Institution</u>	<u>How it operates</u>	<u>Limitations and concerns</u>
World Bank	<ul style="list-style-type: none"> <li>- Direct budget support in the form of grants.</li> <li>- Reconstruction funds for recovery of the critical infrastructure and emergency needs.</li> <li>- Coordinates international donor efforts through trust funds, including those funded by the EU, the U.S., Japan, and other allies (all U.S. direct budget support goes through the WB)</li> </ul>	<ul style="list-style-type: none"> <li>- Prohibition to fund defense articles.</li> <li>- Low Ukraine agency.</li> <li>- Low overall priority of Ukraine. Mandate focus is to fund 17 UN Sustainable Development Goals in accordance with the 2030 Development Agenda.</li> <li>- Complicated administrative system due to having 189 country members.</li> <li>- China being a significant shareholder (nearly 6% voting power), third largest after the US and Japan. It is increasingly vocal in shaping policies, especially in promoting infrastructure investments favorable to its Belt and Road Initiative (BRI).</li> </ul>
IMF	<ul style="list-style-type: none"> <li>- Direct budget support in the form of cheap loans linked to implementation of reform indicators under the IMF Memo.</li> </ul>	<ul style="list-style-type: none"> <li>- Prohibition to fund defense articles.</li> <li>- China being a significant shareholder (6,16% voting power), making it the third-largest shareholder after the U.S. and Japan.</li> </ul>
EU Ukraine Facility	<ul style="list-style-type: none"> <li>- Cheap loans and grants in the form of direct budgetary support linked to implementation of reform indicators.</li> <li>- Ukraine investment framework is operated through EIB and EBRD.</li> <li>- Technical assistance to the government, support for civil society, capacity building projects through the International technical assistance projects.</li> </ul>	<ul style="list-style-type: none"> <li>- Prohibition to fund defense articles.</li> <li>- Certain EU member states like Hungary delayed the launch of the instrument though do not impact the disbursement any more.</li> </ul>
EIB	<ul style="list-style-type: none"> <li>- Ukraine Solidarity Urgent Response in the form of cheap loans for the Ukrainian government.</li> </ul>	<ul style="list-style-type: none"> <li>- Focuses on EU priorities.</li> <li>- Low Ukrainian agency. Ukraine is not part of the EU thus the usage of EIB has its limitations.</li> <li>- Prohibition to fund defense articles.</li> </ul>

		<ul style="list-style-type: none"> <li>- Is at the initial stage of rethinking its overall role in supporting Europe's defence and security.</li> </ul>
EBRD	<ul style="list-style-type: none"> <li>- Providing loans to Ukraine's private and public sectors.</li> <li>- Investments in the private sector (mostly energy, infrastructure, agriculture etc).</li> <li>- May allocate grants.</li> </ul>	<ul style="list-style-type: none"> <li>- Low Ukrainian agency.</li> <li>- Prohibition to fund defense articles.</li> <li>- Russia is a founding member, though its influence got limited after the 2014 invasion.</li> <li>- China became a non-recipient shareholder in 2016. Holds limited voting rights but uses its position to support BRI-aligned projects in Europe.</li> </ul>
European Peace Facility, EPI Foreign Policy Instrument	<ul style="list-style-type: none"> <li>- Reimbursement by the EU to the EU member states for military equipment donations to Ukraine.</li> <li>- Allocating funds for specific initiatives related to procuring weapons for Ukraine (e.g. using the 2024 windfall profits for procuring Ukrainian-made howitzers Bohdana or French-made howitzers Caesar etc)</li> </ul>	<ul style="list-style-type: none"> <li>- Low Ukrainian agency. Ukraine has limited control who is reimbursed for what. Through the Rammstein coalition Ukraine sets up priority needs for military assistance, based on that EU member states provide military aid and then receive reimbursement from the EPF.</li> <li>- Reimbursement was effectively blocked by Hungary.</li> <li>- The EPF can finance Ukrainian weapons purchases through Foreign Policy Instrument, however, it is not clear how effective it is.</li> </ul>
Council of Europe Development Bank (CEB)	<ul style="list-style-type: none"> <li>- Grant funds for emergency assistance and the long-term integration of Ukrainian refugees.</li> <li>- Compensation mechanism could be possible if linked to the Council of Europe's Register of Damage for Ukraine (RD4U).</li> </ul>	<ul style="list-style-type: none"> <li>- Focus on refugees, disasters, job creation, social development. No mandate, structure, or staffing to execute the activities of a wartime development bank such as funding defense.</li> <li>- Prohibition to fund defense articles.</li> <li>- Founded in 1956 as "Resettlement Fund for National Refugees and Over-Population in Europe" to restore post-WW2 displacement.</li> <li>- 43 member countries. Ukraine has been a member since June 15, 2023.</li> </ul>

