



Weapons, weapons, weapons, and timely financial support

by Natalie Jaresko



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When Russia illegally invaded Ukraine February 24, 2022, more than eight months ago, western allies, policymakers, military experts and journalists overwhelmingly inaccurately predicted this outcome, which has made this war more costly from every perspective. As time passed and Ukraine showed historic courage and strength in the face of tragedy, policy slowly began to catch up with reality. However, with each hesitation, with each delay in coming to terms with the importance, scale and danger of Russia’s war against the liberal world, the costs unfortunately have grown rapidly -- in human life, civilian infrastructure, agricultural exports, and more. We have had sufficient experience and time now to cease hesitating and look forward realistically, planning, preparing, acting, and providing that which is needed to minimize the cost to human lives, to infrastructure, and to enable Ukraine to prevail as quickly as possible.

The world was not prepared for the reality of this unprovoked and cruel war. The global democracies mistakenly gave the “second largest army” in the world too much credence, while underestimating the defiance and resilience of the Ukrainian people and their Armed Forces. Hesitation in providing critical weapons and air defense systems early in the war has allowed far too much damage. The G7 and its partners also seemed unprepared to respond financially to the scale of Russia’s massive devastation to life and property, which resulted in a massive outflow of refugees, destruction of businesses, blockage of

exports, decline in tax revenues, and a tremendous drop in Ukraine's GDP. The global democracies initially failed to understand the attraction and value of freedom to those who are faced with losing it to a tyrant who places no value on human rights:

"We will not be broken by shelling. The enemy's rockets in our sky are less scary than hearing the enemy's anthem on our land. We are not afraid of the dark. The darkest times for us are not without light, but without freedom. Our warriors are strong, volunteers are tireless, partners are reliable, and people are indomitable."

Volodymyr Zelenskyy, President of Ukraine

Eight months later it appears that there is general agreement that Ukraine is on the forefront of a vicious attack on global democracy. There is agreement that the outcome of this war sets a precedent for the peace-loving free and democratic world. It will determine whether might and brute force will define our borders, our trade routes, our flight routes, and our freedoms – or rule of law, diplomacy and respect for sovereignty and territorial integrity are the cornerstone of our world. This war will further determine whether there is any chance whatsoever for nuclear non-proliferation efforts, given Ukraine voluntarily gave up one of the world's largest nuclear weapons inventory in return for security guarantees– which have in essence been proven meaningless as Russia, one of the states providing those assurances, is the invader.

Further, there is general agreement that supporting Ukraine financially is critical to ensuring the country's capacity to continue fighting, to stem the flow of even more refugees and instead begin to see a return of refugees home, and to ensure that the country is best prepared for resuming growth and rebuilding its economy when the war comes to an end. The challenge going forward is not the general principle of supporting Ukraine financially, but instead ensuring sufficiency and predictability of that support, while providing credence to the future rebuilding of Ukraine.

First priority

Ukraine is continuously making progress moving Russian troops back, regaining its territory and making life safe again for its citizens on previously occupied territories. Kherson is the most recent example of this welcome liberation. However, the war is taking such a significant toll on the Ukrainian economy, we need to pair our military support with urgent and immediate financial support. One quarter of Ukraine's territory, 35% of its GDP, access to its ports, and massive destruction create a uniquely dangerous fiscal situation for the Government of Ukraine – which has to date continued to provide critical services to the population and maintain the overall currency and banking system with astute policies. The Government needs resources to maintain this level of governance without resorting to printing money and causing a terribly dangerous hyperinflationary spiral.

The Ukrainian Government and the IMF have estimated that Ukraine's fiscal deficit in 2023 will be in the range of \$36 billion. Ukraine has already taken steps to minimize the deficit by reducing all non-critical social and capital expenditures. That said, the expenditures that remain are critical – pensions, education and healthcare sector wages, as well as subsidies for skyrocketing energy costs and for the over 6 million internally displaced Ukrainians forced to flee their homes and livelihoods. Ukraine's 2023 proposed budget requires increased social payments representing two thirds of the other cost reductions made since the war.

The EU and US have each committed approximately \$1.5 billion per month to cover this gap and will be supported additionally by other allies such as Japan and Canada. The challenge is not in the commitment itself, which has been made and is very welcome. The challenge is in the predictability of receipt of these funds. In 2022, notwithstanding commitments made by allies, Ukraine was forced to monetize much of its deficit, in essence printing monies to pay salaries, pensions and subsidies. The single largest contributor to deficit financing as of October 19, 2022 was the National Bank of Ukraine, which provided some \$10.6 billion toward the deficit of \$38.6 billion. The lack of timely funding resulted in inflation of over 20%, while salaries and pensions have been frozen at nominal amounts. This inflation “tax” is being paid by those most in need in Ukraine, on fixed incomes, with no alternative sources of income, and those who provide the most needed services – from education to firefighting to emergency services. As Minister of Finance at the end of 2014, I know the

heartbreaking challenge of waking up to a lack of resources in the treasury needed to pay critical salaries -- the balancing act that is required to manage in such a situation.

Predictable and timely delivery of commitments is an absolute necessity in 2023 to avoid further monetization of the deficit, which could turn into the only nightmare Ukrainians are not yet confronted with today – devastating hyperinflation. Hyperinflation would see savings wiped out, currency devalued, banks challenged to stay afloat and more. Not only would this be extremely painful, but it would make post-war recovery of Ukraine’s economy even more complex. Ukraine and its donors must agree on a careful calendar outlining the specific dates and amounts to be received such that the Ministry of Finance can plan its required expenditures and avoid being forced to turn to the National Bank of Ukraine for monetization.

Second priority

Ukraine’s partners have utilized the tools most available to them in 2022 to get resources to Ukraine. The great majority of this support has been in the form of debt, though. The financial support provided to Ukraine during this critical time must prioritize grants over credit. The United States has been exemplary in providing financial assistance via grants, while other donors have found it difficult to devise the appropriate mechanisms to date. Already Ukraine’s debt to GDP ratio hovers at 87-88%. With this year’s estimated GDP decline of 35%, the recent Russian renewed blockage of agricultural exports through Ukraine’s ports, and the pace of missile and drone attacks on critical infrastructure, the forecast restoration of GDP growth in 2023 is at risk.

Piling on debt, even if at very low interest rates, will hamper Ukraine’s ability during the post-war recovery to access capital markets, which could credibly provide a part of the capital needed for rebuilding post war. Winning the war with an unsustainable level of debt and getting mired in new debt restructuring discussions rather than focusing on an inspired renewal of the economy would have tremendous costs. In contrast, Ukraine maintaining access to capital markets post-war could be very valuable in accelerating the rate of renewal and recovery and attracting private sector investors.

Third priority

With all the discussion of a substantially capitalized and visionary “Marshall Plan” for Ukraine, we must not lose sight of the urgent need to invest today in critical infrastructure renewal. Recent massive bombings of critical electricity, heating and water infrastructure make the estimated \$18 billion ever more critical to meet. As of October 27, Russia had carried out 4,500 missile strikes and more than 8,000 air raids. At least half of Ukraine’s thermal power generation, and up to 40% of the entire energy infrastructure have been damaged. Nearly every area of Ukraine has been shelled, damaging the water heating systems, and power lines. The intent of this targeted destruction of civilian infrastructure is to make life unlivable for Ukrainians, or as some Russian pundits have bragged, to freeze Ukrainians to death this winter.

Our urgent support for restoring electricity, providing generators, power banks, mobile boiler houses, and funds for rapid rebuilding of this damage is critical to the ability of Ukrainians to survive this winter when temperatures could reach -20C in January and February. Providing housing for those who have lost their homes to residential housing damage is the only way to avoid renewed waves of outmigration. It is in all our interest to work with Ukraine now to prioritize and get these supplies into Ukraine as soon as possible. The war crimes being committed against civilians and civilian infrastructure must not be allowed to stand without immediate response.

Fourth priority

All efforts must be made now to design an infrastructure that allows some if not a great majority of these costs to be financed by Russia. In the United States, members of both political parties are using U.S. assistance to Ukraine as a political tool in the upcoming elections. In Europe, public concern about higher energy costs and inflation worry national leaders about the strength of what has been incredible support for Ukraine. Even if international and US bipartisan support for Ukraine remains strong despite a looming recession, we should begin a process now that would provide access to frozen Russian assets, ensuring taxpayers that Russia will pay for its war crimes and illegal invasion.

Scholars such as Anton Moiseienko of Australian National University and University of Virginia professor Philp Zelikow have mapped out a realistic legal path based on the United Nations General Assembly recognition in 2002 of the International Law Commission's Articles on the Responsibility of States for Internationally Wrongful Acts. In a recent article former US Trade Representative Robert Zoellick notes that the international legal basis for transferring Russia's reserves to Ukraine, perhaps in the form of an international fund for compensation, has already been established via several UN resolutions and a ruling from the International court of Justice. Just days ago, nearly 100 nations at the UN General Assembly voted in favor of establishing an international mechanism for compensation for damage, loss and injury. This needs to be done now.

Fifth priority

Finally, it is time to move from promises, declarations, conferences and think tank research papers to practical preparation for the post-war recovery. The World Bank's June report identified long term reconstruction needs at \$349 billion (before the massive civil infrastructure destruction campaign aided by Iranian drones). Ukraine has provided the vision of the \$750 billion rebuilding effort it foresees – a vision of a European Union member with a green economy, digital and efficient, attracting its citizenry back with quality education, housing and jobs. It is now time for the donor community to come together and create the coordination platform that satisfies the EU desire to lead, the US desire to play a major role, and the Ukrainian desire to ensure the platform is well organized and ready to engage with the Ukrainian government and civil society the day the war ends. In addition to a coordination platform, there is likely to be the need for an implementation agency/entity in Ukraine embedded with donor representatives. The international negotiation, creation, staffing and training of these entities will take time. Thus, to avoid any delay in our ability to give life to Ukraine's inspiring vision, the international community should dedicate resources now to coming to an agreement, whether it takes the form of that suggested by the German Marshall Fund in September 2022 or other.

After the meaningful statements and discussions at the July 2022 Lugano conference and recent Berlin conference, any next conference should include not only detail on

the agreement reached for coordination and implementation, but also concrete and meaningful donor pledges for the rebuilding effort. It is time for donor governments and the international financial institutions to both prepare voters and work through their individual bureaucracies to identify the scope, methods and approaches they will take to invest in the rebuilding. These specific commitments should include direct funding, export credit programs, as well as political and military risk insurance needed to engage the private sector fully in this effort.

Conclusion

When asked what is needed to win this war, Ukrainians often respond “weapons, weapons, and weapons.” I urge everyone to supplement this response: “weapons, weapons, weapons and urgent, timely financial support.” Moreover, I urge Ukraine’s partners to plan, be clear and specific with amounts and timing, ensure predictability and provide inspiration. The people of Ukraine have shown their resilience for nearly nine months. The Government of Ukraine has shown its capacity to deliver critical government services, to repair and rebuild, to inspire its citizenry, and defend against a horrific invasion – when almost no one foresaw this possibility. We cannot allow partner/donor delays and uncertainty to result in hyperinflation causing more pain, further outmigration, complication in restoring economic activity post-war and reducing the resources Ukraine itself can bring to bear for the renewal and restoration of its economy. Critical infrastructure must be rebuilt now to ensure the survival of the citizenry during the upcoming war. We must seize the opportunity today to seek resources from frozen Russian assets to supplement our support, as it is Russia that caused this devastation and loss. We must join with President Zelensky and Commander in Chief Valeriy Zaluzhnyy in inspiring the Ukrainian people with real and significant commitments now to the post-war renewal of Ukraine’s economy.

The least costly means of supporting Ukraine’s defense of our freedom and restoration of global peace is to plan and execute strategic financial support for Ukraine with leadership and foresight now.