

WITH A WHIFF OF "APPEASEMENT" EMERGING

(incl. in latest IMF WEO Update), it is time to launch the plan to reconstruct war-torn Ukraine.

By Bart Le Blanc

- The impact of the Russian invasion of Ukraine is one of multiple reasons for a gloomy outlook in the recent IMF World Economic Outlook Update. Instead of appealing to end this barbaric war, the IMF only commented that *"sanctions aimed at pressuring Russia to end hostilities are ... reinforcing earlier geopolitical tensions"*. Is this IMF's 1939 Munich moment?
- The many calls for a new Marshall Plan for Ukraine mobilise many voices and views on the future of Ukraine. It is however clear that today's situation demands a very different solution from the 1940s US launched European Reconstruction Program (ERP) aka "The Marshall Plan".
- Current financial estimates for the reconstruction of Ukraine and region, including short-term emergency needs, are expected to exceed \$700 billion (and counting). This is massive, but historically not unimaginable nor un-financeable through joint international efforts.
- The Ukrainian Leadership has made it clear that the reconstruction of Ukraine is NOT about rebuilding the past! Building on this view and the many lessons learnt, an effective 21st century reconstruction plan requires:
 - *Mission clarity: UN SDGs driven investments for equitable growth.*
 - *Broadest possible donor community (no new 'Iron Curtains').*
 - *Concentrated recipient focus: Ukraine plus neighbouring regions (e.g., Poland, Moldova) and need to include special window for post-war Russia.*
 - *Joint implementation with strong local input: importance of local communities and municipal infrastructure*
 - *No preferential donor trade access: allow local businesses to participate within good governance and fair-trade framework.*
 - *Go beyond loans: to include all financial instruments for reconstruction.*
- Oh, and one last thing: it is time to launch another initiative: an *Access to International Financial Markets Initiative*. It is a longer-term project but essential for *sustainable reconstruction financing*.

1. **"Inflation Peaking amid Low Growth": the latest IMF World Economic Outlook update carries an unexpected 'Munich' appeasement smell.**

The picture emerging from IMF's latest world economic outlook is surprising in many ways: *"The balance of risks remains tilted to the downside, but adverse risks have moderated since the October 2022 WEO"*.

However, this moderation from a bad starting point is still worrisome: the overall world output growth remains at 50% of its 2021 level (see table below). Despite its less restrictive COVID policies, the Chinese economy (the number 2 of the world), is cruising at a new trend level of around 5% which is around half what it used to be in the 1990s and 2000s.

The hoped-for post-pandemic recovery could clearly be blown off course.

Particularly for the lower income countries and the billions of people living there, the coming years will remain very difficult: Little or no tangible progress in development, no real social and individual welfare.

Table 1. Overview of the World Economic Outlook Projections
(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	2021	Estimate	Projections		Difference from October 2022 WEO Projections 1/		Estimate	Projections	
		2022	2023	2024	2023	2024		2022	2023	2024
World Output	6.2	3.4	2.9	3.1	0.2	-0.1	1.9	3.2	3.0
Advanced Economies	5.4	2.7	1.2	1.4	0.1	-0.2	1.3	1.1	1.6
United States	5.9	2.0	1.4	1.0	0.4	-0.2	0.7	1.0	1.3
Euro Area	5.3	3.5	0.7	1.6	0.2	-0.2	1.9	0.5	2.1
Germany	2.6	1.9	0.1	1.4	0.4	-0.1	1.4	0.0	2.3
France	6.8	2.6	0.7	1.6	0.0	0.0	0.5	0.9	1.8
Italy	6.7	3.9	0.6	0.9	0.8	-0.4	2.1	0.1	1.0
Spain	5.5	5.2	1.1	2.4	-0.1	-0.2	2.1	1.3	2.8
Japan	2.1	1.4	1.8	0.9	0.2	-0.4	1.7	1.0	1.0
United Kingdom	7.6	4.1	-0.6	0.9	-0.9	0.3	0.4	-0.5	1.8
Canada	5.0	3.5	1.5	1.5	0.0	-0.1	2.3	1.2	1.9
Other Advanced Economies 3/	5.3	2.8	2.0	2.4	-0.3	-0.2	1.4	2.1	2.2
Emerging Market and Developing Economies	6.7	3.9	4.0	4.2	0.3	-0.1	2.5	5.0	4.1
Emerging and Developing Asia	7.4	4.3	5.3	5.2	0.4	0.0	3.4	6.2	4.9
China	8.4	3.0	5.2	4.5	0.8	0.0	2.9	5.9	4.1
India 4/	8.7	6.8	6.1	6.8	0.0	0.0	4.3	7.0	7.1
Emerging and Developing Europe	6.9	0.7	1.5	2.6	0.9	0.1	-2.0	3.5	2.8
Russia	4.7	-2.2	0.3	2.1	2.6	0.6	-4.1	1.0	2.0
Latin America and the Caribbean	7.0	3.9	1.8	2.1	0.1	-0.3	2.6	1.9	1.9
Brazil	5.0	3.1	1.2	1.5	0.2	-0.4	2.8	0.8	2.2
Mexico	4.7	3.1	1.7	1.6	0.5	-0.2	3.7	1.1	1.9
Middle East and Central Asia	4.5	5.3	3.2	3.7	-0.4	0.2	...	...	...
Saudi Arabia	3.2	8.7	2.6	3.4	-1.1	0.5	4.6	2.7	3.5
Sub-Saharan Africa	4.7	3.8	3.8	4.1	0.1	0.0	...	...	...
Nigeria	3.6	3.0	3.2	2.9	0.2	0.0	2.6	3.1	2.9
South Africa	4.9	2.6	1.2	1.3	0.1	0.0	3.0	0.5	1.8
<i>Memorandum</i>									
World Growth Based on Market Exchange Rates	6.0	3.1	2.4	2.5	0.3	-0.1	1.7	2.5	2.5
European Union	5.5	3.7	0.7	1.8	0.0	-0.3	1.8	1.2	2.0
ASEAN-5 5/	3.8	5.2	4.3	4.7	-0.2	-0.2	3.7	5.7	4.0
Middle East and North Africa	4.1	5.4	3.2	3.5	-0.4	0.2	...	...	...
Emerging Market and Middle-Income Economies	7.0	3.8	4.0	4.1	0.4	0.0	2.5	5.0	4.1
Low-Income Developing Countries	4.1	4.9	4.9	5.6	0.0	0.1	...	...	...

Only constructive multilateral action can lessen the hardship of many. And urgent international cooperation is needed to end the barbaric war in Ukraine and to start rebuilding this war-torn country. So why is so little attention paid to this?

IMF and the Russian invasion of Ukraine: an IMF 'Munich moment'?

The possibility of escalation in the war Ukraine is presented in the IMF World Economic Outlook Update as one of the "downside risks" threatening global economic growth.

The IMF identifies five areas for urgent international action: (1) restraining the pandemic, (2) addressing debt distress, (3) strengthening global trade, (4) using the global financial safety net, and (5) speeding up the green transition.

Surprisingly no mention of the need for a call to end Russia's aggression in Ukraine, to stop the suffering of the Ukrainian people, and to start working on the reconstruction of the country.

In an almost 'appeasement style' comment, the IMF warns that international pressure on Russia could upset the global outlook and lead to an increased risk of 'Geo-political Fragmentation':

"The war in Ukraine and the related international sanctions aimed at pressuring Russia to end hostilities are splitting the world economy into blocs and reinforcing earlier geopolitical tensions, such as those associated with the US-China trade dispute."

A bit of a weaselly comment!

How many brave soldiers and heroic civilians have died or have been maimed as a direct result of the US-China trade 'war'??

Is this IMF's 'Munich moment'?

This is my call for urgent, coordinated international action to support the victims of the Russian invasion and start working **immediately** on the rebuilding and reconstruction of war-torn Ukraine and the region.

Is there a need to wait for the war to end?

NO! On the contrary, strong international commitment for Ukraine's reconstruction - which needs to include support for a new, post-war Russia - might actually facilitate to bring an end to this disastrous Russian aggression.

Let's kick the tires of IMF's risk assessment of "Geo-Political Fragmentation".

2. A new 'Marshall Plan'?

How many times have you heard the call for a "New Marshall Plan" for the reconstruction of war-torn Ukraine during the last 12 months?

It is an easy reference for many to capture the imagination for a vast financial (international) support effort for a country/region destroyed by a ferocious war initiated by neighbouring Russia. There are many academic studies about the origin, the politics, and the economics of the Marshall Plan. A thorough review might help to design a programme fit for the 21st century.

Main features of the US 1947 European Recovery Program (ERP) also known as 'The Marshall Plan'.

An important study of the Marshall Plan by Curt Tarnoff, an American foreign affairs specialist of the US Congressional Research Services, and prepared for Members and Committees of the US Congress, provides us with a comprehensive overview of its political and socio-economic importance (see *Curt Tarnoff, The Marshall Plan: Design, Accomplishments, and Significance. CRS Report January 2018*).

Let's summarize some of the key elements:

- The Marshall Plan was a first of its kind; a *comprehensive plan* for development and humanitarian assistance launched by a single country: The United States. The Plan had three key mission objectives which were aimed at reconstructing Europe after World War II destruction: (1) re-establish Europe's agricultural and industrial production capacity, (2) restore financial stability and (3) restart international trade.
- The Plan was a first in providing international aid *linking economic growth and political stability*. It was ground-breaking that the Plan was not only exclusively aimed at the victims of World War II, but also included financial support for defeated aggressor Germany. A (divisive) political conditionality was that countries with communist regimes were excluded (e.g., the former GDR and the Warsaw Pact nations), or curtailed in the case of (presumed) communist sympathies (e.g., Italy).
- An important design feature was the Plan's set-up as a *joint effort* between the donor country (the US) and the recipient countries in Europe. Its implementation was governed *jointly* through a US government agency and a European organisation for the implementation of the programme: the US Economic Cooperation Administration (ECA) was responsible for the funding and the technical assistance provision. Its European counterpart: the Organisation for European Economic Cooperation (OEEC) proposed national allocations and projects. Through the OEEC provided a strong bottom-up spirit. The access to Marshall Plan finance was dependent on a matching requirement through so called 'counterpart funds': equivalent amounts of local money was demanded to match the Plan's funding.

- There was *no explicit preferential treatment* for the donor nation businesses. However, a certain level of procurement of US surplus goods was “encouraged”, the financing was provided in US dollars, the US government provided technical assistance and business advice, and it supported for businesses trading with European countries.

It was thus to be expected that the US business sector would be actively involved in producing for and trading with post-war Europe. It certainly helped gaining broad political support in the US Congress for the ERP legislation.

3. Ukraine reconstruction needs: How much and from whom?

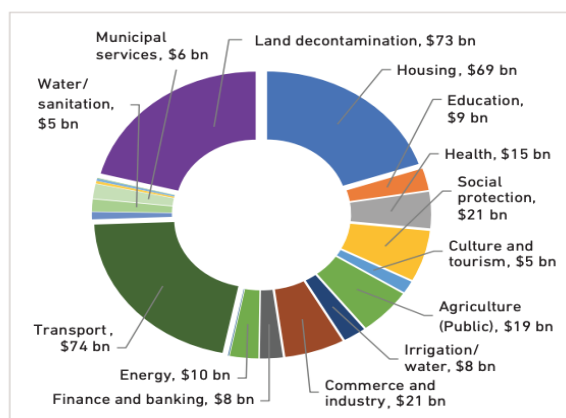
The numbers....

In a joint effort the Government of Ukraine, the World Bank Group and the European Commission have presented an initial analysis in a Rapid Damage and Needs Assessment (RDNA) for Ukraine (see *Worldbank, Government of Ukraine, and European Commission: Ukraine rapid damage and needs assessment August 2022*).

The first set of numbers were presented in June 2022 and were estimated at about US\$349 billion including around \$150 billion emergency funding.

Integrated into these needs are critical steps for the country to becoming a modern, low-carbon, disaster-resilient and climate-resilient, and inclusive country which would be closely aligned with European neighbouring countries (see pie chart from the joint study below).

**Figure 3. Total needs as of June 1, 2022:
US\$349 billion**



Source: Assessment team.

The joint assessment dates from August 2022. Today these numbers would be significantly higher, particularly following the continuing aggression by Russian forces and the bombardments of the Ukraine’s infrastructure during the 2022/23 winter period.

Any current estimate may therefore exceed \$500 billion with a higher relative share of emergency support.

This is a massive amount.

However, to put it in perspective: the US financial support to European countries following World War II including the 1947 Marshall Plan, would in today’s US dollar value by itself already exceed \$350 billion. Under the Marshall Plan each country was expected to match the US contribution (the so called “*counterpart funds*”).

As a result, the total reconstruction post WW II reconstruction financing mounted was more than \$700 billion in today’s money which is huge, but historically not unprecedented!!

So many Ukraine support initiatives.

Over the last year we have seen a flurry of international initiatives of support for Ukraine. The list of nations around the world providing assistance for Ukraine is overwhelming: ranging from the well-known donors such as the US, the European nations/institutions and all G7 countries, to countries like South Korea, India, China and Taiwan.

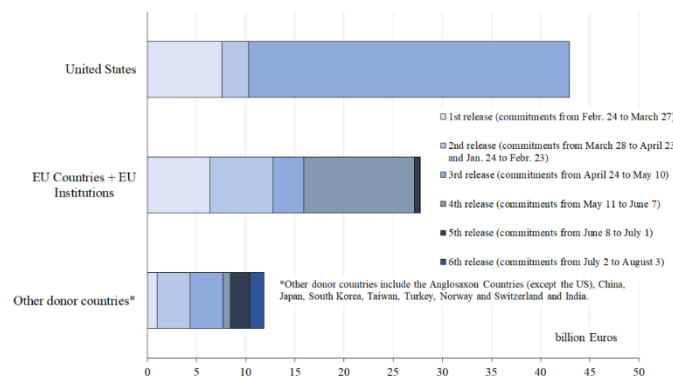
The renown *Kiel Institute for the World Economy* invested a lot of academic analytical capital in the study of the Ukraine war. As part of this it has developed a very useful data tool in its *Ukraine support tracker* (ukrainetracker@ifw-kiel.de) which provides a regularly update of who is helping Ukraine, and by which means differentiating between humanitarian, financial, and military support.

The following graph shows a published status of government support from August 2022. It illustrates that by the Summer of 2022 already some €100 billion was committed by almost 50 countries around the world.

The largest donor is the US, importantly driven by military supplies.

The European Union shows up as second largest donor providing emergency supplies and help for Ukrainian refugees mainly through financial support measures.

Figure 1. Overview: Government support to Ukraine, € billion
Commitments January 24 to August 3, 2022



Note: This figure summarizes the support commitments to Ukraine in billion Euros between January 24 and August 3, 2022. EU commitments include bilateral commitments of all 27 EU member countries.

(see: Arianna Antezza c.s, *Which countries help Ukraine and how?* IfW Kiel)

In addition to the reported government-to-government support programmes, there is a significant number of private and charitable initiatives aimed at supporting Ukraine and its people.

Many of these support programmes have their own specificities and conditions.

This could create a particular coordination problem for the Ukrainian government and local charitable organisations.

4. How to develop an effective Ukraine reconstruction programme.

Not rebuilding the past and not copying the 1940s Marshall Plan.

The message of Ukraine's leadership is clear: reconstructing Ukraine is NOT about reconstructing a pre-war Ukraine nor copying the 1947 Marshall Plan.

It is about building an independent, democratic, and open new Ukraine, fitting the requirements of today and tomorrow.

In their view the reconstruction plan needs to integrate answers to today's complex (global) issues of tackling climate change, responding to post-pandemic health issues, and addressing rising and unfair inequalities. The UN Sustainable Development Goals (SDGs) provide a set of clear mission targets for the reconstruction programme.

This was the conclusion of an international conference organised by the National Academy of Science of Ukraine in December 2022 (*to which I had the privilege and honour to be invited*). It is remarkable to see the courageous Ukrainian leadership taking such progressive stance on shaping the New Ukraine.

Is the call for a '*new Marshall Plan*' for Ukraine more than an easy sound bite?

Yes, it signifies the need for decisive international cooperation and provides a spirit and a frame of mind to shape an effective reconstruction programme. But, in *practical* terms, the context of the 1947 Marshall Plan is incomparable with the situation of today. The world economy in the 1940/50s looked very different from today's interconnected global economics.

After World War II the US economy counted for almost half of the world's GDP. Today the US is still the world biggest economy, but the US share in global GDP dropped to one-sixth of that in 2023. And thanks to the generous Marshall Plan, the joint economic power of the joint European Union economy has become substantial and with the US and China makes up the Top 3 Economic Powers.

The geometry of the Marshall Plan '*one donor-multiple recipients*' (the US and *a dozen countries in Europe*) is also not comparable.

We are now looking for a broad-based international donor base for a highly concentrated recipient focus.

Lessons-learnt shape key programme features.

Building on some of the key principles of the Marshall Plan and taking the lessons learnt into account, I see the following key elements emerging:

- ***MISSION CLARITY: broaden beyond the 1940s political economic goals of the Marshall Plan, UN Sustainable Development Goals are the guiding lights.***

The Ukraine reconstruction programme is not about rebuilding the past but aimed at UN SDG driven investments for equitable growth in a free society.

The programme needs to be comprehensive covering social, environmental, and economic objectives.

It also needs to acknowledge the interwoven nature of these objectives acknowledging globally accepted principles of the rule of law, basic human rights, and integrating **all** United Nations Sustainable Development Goals (SDGs).

- ***AIM BROADEST POSSIBLE DONOR COMMUNITY (no new Iron Curtain)***

The programme's mission and objectives should allow to muster as much international support as possible from all continents of the world.

The current support initiatives already count more than 40 countries across the world.

The joining motivation needs to be found in the respect of the rule of law and the broad UN based SDGs .

Any rigid interpretation of political conditionality needs to be avoided to build the broadest possible coalition (*no Marshall Plan repeat in the form of a new Cold War or Iron/Bamboo Curtain*).

- **CONCENTRATED RECIPIENT BASE: UKRAINE plus neighbouring affected region (e.g. Poland, Moldova) and to include a special window for post-war Russia.**

The main recipient country is Ukraine.

We should not overlook that some neighbouring countries have been affected and suffered social and economic hardships by the influx of war refugees and well as Russian threats and aggressive behaviour. Both for the sustained generosity in their refugee policies and their stance on the political front, countries such as Poland and Moldova have earned their place in a supportive international assistance programme.

Any international support also needs to include a special window for erstwhile aggressor Russia who's people have suffered through loss of (soldier's) life, economic hardship from international sanctions and denial of democratic freedom. In the spirit of Lincoln, Truman and Marshall, Churchill, and of Mandela and Tutu, the programme needs to be inclusive and aimed at reconciliation and not revenge.

The longer-term benefits will by far outweigh any short-term revenge "satisfaction" (if any). Support for Russian people and businesses will help building a new post-war Russia and avoids creating 'martyrs' and new geo-political tensions (including from an enhanced Russia-China alliance).

- **NO PREFERENTIAL TRADE ACCESS FOR DONORS; SUPPORT FOR LOCAL INITIATIVE, provided good governance and open and fair trade is ensured.**

Like the Marshall Plan the new programme needs to be built as a *joint effort* of donor- and recipient-countries with a strong bottom-up spirit.

At the donor community level, the main strategics and operating principles are set to include sound financing principles and a trade and procurement framework.

The implementation should be driven by international, competitive tendering processes. No preferential treatment from donor countries is to be allowed (*rather the reverse of the Marshall Plan's record with its estimated 70% post-war European purchases spent in the US according to the above mentioned CRS Tarnoff study*).

The recipient countries propose financing of projects where possible undertaken by to local businesses. This requires a country to ensure a framework for fair trade and good governance. Corrupt and fraudulent practices need to be weeded out and open and fair competition needs to be strengthened. In this area there is work to do particularly in Ukraine as recent data from the EBRD's Transition Report 2022 illustrate (see below).

EBRD Sustainable Market Economy Comparator Data (scores between 0-10)

	Competitive	Well-Governed	Green	Inclusive	Resilient	Integrated
Czech R.	7.07	7.13	6.95	7.17	7.86	8.08
Romania	6.72	6.83	6.79	6.92	7.98	6.95
Ukraine	4.87	4.42	5.36	6.16	5.68	5.11

The necessary structural and cultural transition is not top-down.

It requires special attention for rebuilding local communities and their municipal infrastructure including health and education facilities. Stronger local communities help building a better nation.

The Ukrainian Leadership is very committed to turning Ukraine into an open, democratic, transparent, free trade nation.

In January 2023 President Zelenskyy initiated a wave of political and legal actions aimed at fighting against corruption including some high-profile political dismissals, accompanied by a broader public discussion of this issue.

- **GO BEYOND LOANS; OFFER ALL FINANCIAL INSTRUMENTS FOR RECONSTRUCTION**

The traditional financing method of lending is not adapted to the wide range of financing needs for the post-war reconstruction. It is clear that after the devastation of Russian bombardments much of the physical infrastructure in Ukraine needs rebuilding.

The reconstruction finance clearly needs more than loans. It needs to combine multiple financial instruments (grants, equity, loans, guarantees, etc) from public, institutional, and private sources with different risk, repayment, and maturity profiles, to optimise its effectiveness in achieving development goals.

Such 'blended finance' approach has become a recognised financing method in the development finance sector: *"Blended finance, combining various tools and instruments from different sources of capital, is a highly effective and widely used approach enabling private commercial capital to invest more deliberately for social (...) and/or environmental impact"* (see 2021 Impact Task Force, see also www.route17.world, a recent blended finance advisory initiative).

It is highly recommended to develop a link with the €800 billion EU's NextGen programme aimed at the post COVID recovery to *"make Europe healthier, greener, and more digital"* (NextGenEU, June 2021)

5. Oh, and one more thing: **Launch an International Financial Markets Access initiative.**

A final recommendation on the international financial markets is not a quick-wins initiative. In my view mobilising all possible financing instruments and possibilities is essential for an efficient and effective reconstruction effort. Currently private sector issuers are now bogged down in their access to debt and equity finance as the rating of any Ukrainian issuer is currently weighed down by the 'country risk' element.

This requires Ukraine to become a more financially stable and open economy.

Given the current situation there is a lot to do. Below we see some data for Ukraine compared with two other Central and Eastern European countries from the EBRD's latest Transition Report which illustrate years of hard work ahead (see below).

EBRD Index of Conditions for Financial Market Development and Market Depth (scores between 0-100)

	<i>Financial Conditions</i>	<i>Market Depth</i>	<i>Macro Economy</i>	<i>Legal Frameworks</i>	<i>Market Infrastructure</i>	<i>Investor Base</i>
Czech R.	76.7	43.8	99.7	94.3	83.0	58.7
Romania	67.9	28.7	91.4	90.4	58.0	31.7
Ukraine	43.6	20.3	65.2	34.5	48.0	26.7

My plea is therefore to start developing an *Access to International Debt Markets initiative*. Without any doubt, the Ministry of Finance and the National Bank of Ukraine would be able to mobilise much Ukrainian finance talent in key financial centres and universities across the world.

Bart Le Blanc, February 2023.

Disclaimer:

All opinions and estimates presented in this document are subject to change without notice. All opinions are the authors own.

This document does not purport to be impartial research and has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is as such not subject to any prohibition.

The information contained in this document has been compiled from sources believed to be reliable, and is published for the assistance of the recipient, but is not to be relied on as authoritative or taken in substitution for the exercise of judgment by the recipient.