



European Affairs Committee

Corrected oral evidence: Implications of Russia's invasion of Ukraine for UK-EU relations

Wednesday 8 November 2023

11.35 am

[Watch the meeting](#)

Members present: Lord Ricketts (The Chair); Baroness Anelay of St Johns; Baroness Blackstone; Lord Hannay of Chiswick; Lord Jay of Ewelme; Lord Lamont of Lerwick; Lord Liddle; Baroness Ludford; Baroness Nicholson of Winterbourne; Baroness Scott of Needham Market; Viscount Trenchard.

Evidence Session No. 6

Heard in Public

Questions 65 - 72

Witnesses

I: Orysia Lutsevych, Deputy Director of Russia and Eurasia Programme, and Head of Ukraine Forum, Chatham House; Mark Bowman, Vice-President for Policy and Partnerships, European Bank for Reconstruction and Development; Natalie Jaresko.

Examination of witnesses

Orysia Lutsevych, Mark Bowman and Natalie Jaresko.

Q65 **The Chair:** We resume our meeting of the European Affairs Committee in the House of Lords in our inquiry into the implications of Ukraine for UK/EU relations. I am delighted to have with us our second panel today with three distinguished panellists: Natalie Jaresko, a former Finance Minister of Ukraine and now the managing director at EUI; Orysia Lutsevych, deputy director of Russian and Eurasian affairs at Chatham House; and Mark Bowman, vice-president of the EBRD. We are being recorded and will let you have a transcript for any corrections before we publish it.

Our focus is on international co-operation, reconstruction and the potential implications of Ukraine's accession to the EU. I will kick off with a broad question to get us going. How do you see the respective roles of the individual EU member states and the UK in the area of the reconstruction of Ukraine? Do you see particular areas where the UK is well placed to lead in that co-operation?

Orysia Lutsevych: Thank you very much. It is an honour to join these hearings. This is a timely initiative. I just came back yesterday from Ukraine, where I spent a week talking to community and city leaders, who all believe that the military wins battles but that it is the economy and the resilience of society that will win this war.

There is a strong determination to win, and people are pooling all available resources from the private sector, budgets and international assistance to do two things: first, to rapidly repair what needs to be repaired on the home front, and secondly, in a more strategic way, to prepare for post-war recovery. The people I met are taking this very seriously. The UK has a very high reputation and, I would say, amazing soft power in Ukraine. It was there with the Ukrainian people from day one and has trust as an ally of Ukraine. It is also quite highly regarded for its way of running an economy and a society, and for being one of the oldest democracies. It is looked to for inspiration and for examples of how Ukraine can break through into prosperity. We should remind ourselves that it is almost exactly three years ago that Ukraine and the UK signed a political, free trade and strategic partnership agreement that is also a good foundation for bilateral assistance.

The agenda for the UK, which I will focus on particularly, is basically to make sure that money and resources—even now, during the war—are flowing to Ukrainian communities. A lot of cities have already been liberated from Russian occupation, and it is difficult for people there to rebuild their lives. A lot of funding is currently going to budget support. That is extremely important, and it will be shored up by the upcoming EU Ukraine Facility, but equally important is the operational base for regional economic development. As a global financial centre, the UK is well positioned to reach out to the private sector and look at where public-private partnerships are possible. What we need to do in Ukraine

economy-wise will be the economic project of the century, and it opens up a lot of opportunities that we should operationalise.

The third area where the UK could be a champion is in the integrity and inclusivity of the recovery process. I mention this in the Houses of Parliament, because the Ukrainian people themselves are demanding to be a stakeholder and to have representation in the process. We at Chatham House are working a lot on these issues. Because of the experience of decentralisation, civil society and communities want to have a stake. We believe that if they have a stake, this process will have trust. Not only will it have less corruption, but it will be of higher quality because that recovery will be grounded in the needs of the people.

Last, but not least, the UK can be a contributor in innovation and technology. That includes demining. Ukraine needs significant assistance to bring back to the global market one of the most fertile soils in the world, which is now completely out of use. The size of the mined territories now equals Romania. If we do not make a technological breakthrough, it could take over 100 years to bring back that soil, so we should all put our heads together over this technology and innovation.

Linked to that is what the UK is strong at: its naval capabilities, which can help to develop Ukraine's ability to protect its naval routes on the Black Sea so that food and other goods can flow to the international markets. Part of that work has already started and is the biggest added value. I will stop now, so that others can contribute.

Natalie Jaresko: Thank you for the honour of participating today. I echo much of what Orysia said. The UK is uniquely positioned to help, in essence, in four ways. First, it can support economic sustainability. Here, the UK is a leader in supporting Ukraine's new grain corridor. It provides critical support for the Ministry of Defence's intelligence, surveillance and reconnaissance operation for the newly established Black Sea corridor. The Black Sea corridor opens up exports in steel and iron ore that are not really profitable or realisable through rail or trucking, so it is critical. The UK is very important to enabling these exports, which are important for economic sustainability in Ukraine. There are other similar measures where the UK can be a leader in enabling critical paths to export and trade.

The second area where the UK has a unique role is in urgent reconstruction. Here, we look to the UK to partner, to twin—as the Danish and the German Governments have done regarding Mykolaiv; there have been recent announcements—and to take on a role at local government level where it can set an example in organisation, urban design, architecture and construction. That can be done at a level where people learn lessons that can be applied in other places.

The third is the unique position of the UK in the private sector, which was shown with great success at the recent Ukraine Recovery Conference. It is also being shown today in the way the UK Government, with others, including my colleague from the EBRD, are working with the insurance

industry, a critical enabling factor for other private sector investment in Ukraine. Because of its prominence in the insurance industry, the UK can bring the players together, engage with them and, in future, start to map out the types of public/private sector partnerships and public sector risk-mitigating programmes that can enable the mobilisation of private money.

Lastly, I cannot stress enough the soft power that the UK carries, as Orysia mentioned. The UK has a voice in Ukraine that is very credible; it has an important voice in the multiagency donor co-ordination platform in the FCDO's representative, Thomas Drew, and it has a voice at the G7. I hope and pray that that voice will be used in all these fora to take on the issue, which the UK Government are pushing forward on, of how we utilise sovereign Russian assets to pay for the reparations and the damage done to Ukraine and its people through this horrific war.

Mark Bowman: I do not want to repeat what has already been said, but it is obvious from the current situation that supporting Ukraine requires collaboration from all partners—the EU, the UK, the US, the G7 and other like-minded countries. That is important on the military and economic side, and it will be even more true during the reconstruction phase in future given the scale of the challenge, the need for collaboration, the size of the challenge and the fact that all these players have a common interest in the success of Ukraine.

I very much agree with what others have said about the particular strengths of the UK. Obviously, there is the military side, and promoting the private sector was a big theme of the London conference, as was mentioned. The UK is also an important shareholder of international institutions and a player in the G7. In fact, looking at my own institution, the EBRD, which is doing some important work in Ukraine—it is a long-standing partner with Ukraine—it has, in fact, increased its investment there following the outbreak of the war. We have done that with the full support of our shareholders. The EBRD is an international institution headquartered in London, bringing together EU and G7 shareholders, which are the main partners. It is a very good forum for international collaboration and co-operation and for the different players to get together and support Ukraine.

Q66 **Baroness Blackstone:** I want to turn to the machinery for achieving reconstruction. A multi-donor co-ordination platform has been established in Brussels, and Britain has played some part in this. How important do you think the role of that institution will be in supporting reconstruction, and to what extent should the UK be a central and important participant in its role? I would also be interested to know whether you see any conflicts in an organisation of this sort between the other international bodies that you, Mark Bowman, have already referred to, such as the EBRD. Is there the possibility of some confusion between these various different bodies in bringing about the reconstruction that is needed?

Mark Bowman: The issue of co-ordination is absolutely critical. It is critical in this current phase of supporting Ukraine and it will become

even more critical as we move to reconstruction. The multi-donor co-ordination platform is a very good initiative. It was a bit slow to get up and running, but it is now finding its feet. It has an important role in bringing together the key players, ensuring that gaps are filled and that there is no duplication in efforts, and that everyone is working towards the same plan. As I say, it is relatively recently established; the secretariat in Brussels and the secretariat in Ukraine are building up at the moment, but there is more work to do to get it up to full speed.

I also stress the critical importance of co-ordination on the reform agenda. Reform is incredibly important for the success of Ukraine in the future. There needs to be a single reform plan, obviously owned by the Ukrainian authorities, which is ambitious, realistic and properly sequenced. It is important that donors, international institutions and the Ukrainian authorities are all pushing in the same direction so that you do not have different donors and different international institutions asking for different things.

On your question about potential conflicts, I do not think there are conflicts between what we as international institutions are doing. There is a need for co-ordination and a need for us to work even better together. To give you a slightly technical example, we, the international institutions, all agree that procurement is incredibly important, and that, thinking about the scale of resources going into Ukraine, proper transparent procurement and procedures, accountability and value for money will be critical.

As organisations, we all have slightly different overlapping processes and procedures. Quite recently, we committed to work with the World Bank, the EIB and other institutions to harmonise our procedures so that the Ukrainian authorities do not have to face different rules and regulations, and, critically, to support Ukrainian national procedures. That is an example of how, at a practical level, we can come together and do a better job, working together to support Ukraine.

Orysia Lutsevych: I agree that co-ordination is the keystone of success. Ukraine will require not only a pooling of the resources but wise investment of those resources in things that work, because you can invest resources that will not give you the right output. We should all understand that at the moment the platform is basically co-ordinating a rapid response to make sure that the Ukrainian economy stays afloat and to work out who is providing budget support and which of the funders are able to cover some of the critical infrastructure needs, for example, so that Ukraine survives the winter.

Again, I will bring in some of the perspectives from Ukrainian citizens and civil society. We have run a digital consultation exercise, and 84% of active Ukrainian citizens believe that this platform must be expanded to include non-state voices—at this point, it is only G7 IFIs—such as representatives of private sector and Ukrainian civil society and perhaps representatives from local self-governance. They also have a huge stake,

as they are working on a daily basis to sustain the Ukrainian economy on the home front.

It is so important that we focus on architecture: how we actually deliver recovery. In Ukraine, several bodies have been set up: the agency for national reconstruction, and the fund for the liquidation of the consequences of Russian aggression. We need also to match this internationally. One thing to pay attention to is the Ukraine plan that is now being submitted to the European Commission for review as part of the EU Ukraine Facility, the €50 billion over a four-year period that was announced by President von der Leyen here in London. That plan could—I emphasise “could”—become a kind of template where we all pool our resources and where there is clarity on reform priorities, which the plan includes, and on the key strategic industries that the Ukrainian Government believe could guarantee growth for the Ukrainian economy, even at a time of war.

Natalie Jaresko: If I may just step back for a moment, from my perspective the recovery requires us to have the four Cs. The first is the concept of the recovery. The Ukrainian Government and people and civil society have been providing us with that concept over different conferences and in different discussions, and now the EU Ukraine facility plan will help us with the concept. However, it still requires discussion at that co-ordination level, because different donors are thinking about things with different timeframes. The Ukraine plan has a four-year timeframe, and some countries are focused on one year because that is their budget cycle, but the World Bank, for example, focuses on 10 years in its rapid damage assessment. Bringing those together on the platform to make sense of them is very important. That is the concept.

All this is about capital and how we create an environment to bring donor capital and private capital. Capital requires credibility and capacity. From my perspective, part of this platform’s role is to ensure that the Ukrainians have credibility in front of the donors. That means having an agreement on what moneys have been used and what they have been used for. That means transparency and accountability, and Ukraine having the credibility to argue its priorities in front of the donors, not just listing them but explaining why those priorities are first, second and third.

Lastly, there is capacity. Ukraine suffers from a labour shortage, and capacity at government, local government and community level is critical to convincing the capital providers that this is the time. So this platform provides an opportunity for that dialogue and to rationalise the concept, create the credibility, ensure the capital and make sure that the capacity to spend exists on the Ukrainian side. The platform is extremely important, and it needs to do more that it has been doing to date.

The arguments for creating a separate institution, another bank or an agency, fall on deaf ears, because the international community is not prepared right now to create yet another institution. So this platform needs to be that place for policy on reforms, co-ordination, collaboration

on financial contributions, advocacy for best practices, and monitoring and reporting the harmonising of the actual recovery process.

Q67 Lord Hannay of Chiswick: I imagine all three of you would agree that the contributions that will be made to the reconstruction of Ukraine will be disproportionately large as between the EU and its member states on the one hand and the UK on the other. There is no way in which the UK will match the amounts of money that the EU will provide, particularly if a decision is taken in December to open accession negotiations and that leads on to the involvement of Ukraine in various parts of European policy, which will increase the flow of funds from the EU.

Against that background, and given that EU member states and the UK are quite prominent donor countries around the world, there is an experience in which you can have duplication or, worse still, the donors can be played off against each other. That would make it more difficult to cope with the problems of corruption that are certainly there but that need to be overcome with the co-operation of the institutions of Ukraine and the donors.

Given those two facts, are there ways in which the UK and the EU and its member states could co-ordinate their policies on reconstruction in a quite new way, and to a considerably greater extent than they have ever managed to do anywhere else in the world?

Natalie Jaresko: We are already co-ordinating better than we did in Afghanistan or other areas. It requires more in-depth dialogue with the two secretariats. Now all the G7 countries have seconded people to the secretariats, they are able to do that.

I do not think the problem is in the competition. The 2024 Ukrainian state budget, notwithstanding the fund that is earmarked for liquidation, has zero funding for recovery, even for urgent recovery, in 2024. There is no capital expenditures budget and no money in the liquidation fund for 2024. The real challenge is raising incremental capital and, as I am sure my colleague from the EBRD will say, ensuring that the Ukrainians have the capacity to put that money to work when it is available.

It seems that there is specialisation among donors and informed co-ordination. The Council of Europe Development Bank is focused on housing, while the EBRD and the EIB have their own priorities. I do not think the challenge right now is too much money anywhere. The challenge is raising capital for the strategic priorities on a timely basis and ensuring that the Ukrainian communities and Government have the capacity to put the money to work rapidly.

Orysia Lutsevych: We all want to make sure that the recovery is effective and has integrity. Ukraine is already putting in place a digital platform that will enable more information about local recovery projects, so that there is no double funding and cities do not apply to different donors for the same project. It is called DREAM and has been presented here in London. It has different modules within it and is in test mode. We

need high-quality projects that are appropriately funded and properly implemented and monitored. That includes the digital aspect as well as offline, where people meet and discuss the priorities. We need these new tools. DREAM is one of them, but it is not sufficient on its own.

Another aspect that you may notice is that, as part of the European Parliament resolution on the EU facility that was voted on last week, they are also calling for a dedicated website that will present all the payments that go through the facility, because it is quite a complex mechanism that includes budget support and derisking for companies as one of the pillars, as well as technical assistance. It is important that all these tools do not overlap but complement each other, and that we all, outside and inside Ukraine, can learn to use them to our best ends.

Mark Bowman: I agree with what has been said. I agree with Natalie Jaresko that there is not much danger of competition or overlap. The needs are very great, and all the different institutions have different functions and roles. We at the EBRD do not do budget support or humanitarian support; we are very much focused on the private sector and supporting the real economy. In the energy sector, for example, where we could overlap with the World Bank, we co-operate very closely and ensure that we are all pushing in the same direction.

I also agree that co-ordination is a difficult task and an incredibly important one. We are doing better in this crisis than we have previously, but we need to keep our efforts going. I said earlier that the multi-donor co-ordination platform is a good initiative, but it is a work in progress and there is more work to be done. I agree with the comments about it being inclusive and including as many different players as possible, but it still needs to be functional, and for me that is about having an effective, useful secretariat to steer the work.

I go back to my point about the importance of the reform agenda and of co-ordinating it. You see in some countries—maybe this goes to Lord Hannay's point—the relationship with donors being very transactional: "We will give you money if you do X or change your legislation in this way". You can get into the issue of the recipient country trading off against different donors when it comes to co-ordination.

For me, the really important point is the involvement and ownership of the Ukrainian authorities. You must have the Ukrainian authorities working with the EU, the US and the UK and agreeing on a comprehensive reform agenda that is ambitious, credible and sequenced and has capacity behind it. If there is one reform plan, co-ordination will ensure that everyone gets behind that plan and supports the Ukrainians in implementing it.

The Chair: Lord Liddle has a question about lessons from previous experiences.

Q68 **Lord Liddle:** We have tried reconstruction efforts in the Balkans, with mixed results, and of course post the collapse of the Soviet Union. What

lessons can we learn from those previous experiences?

Orysia Lutsevych: That is an excellent question. For us to understand what mistakes to avoid and what best practice to apply, it is important to talk about the gravity of the problem, because we have not really put that on the table. Ukraine will face a huge demographic crisis. The country may come out of this war with 25 million or 30 million people, and that is an optimistic scenario. There will be a bout of insecurity that will incapacitate a lot of territory for economic development. Let us be realistic: along the border with Belarus and Ukraine, which spans over 3,000 kilometres, there will be a variety of degrees of risk from missiles, armaments and explosives for some time to come.

Even before the war, Ukraine was facing challenges of low productivity, overorganisation and unequal regional economic development, and there had been underinvestment for some time. It was bending the curve, though, and was almost ready for a leapfrog after the Revolution of Dignity. That is something to remember: Putin attacked Ukraine when it was at its strongest. That is why the lessons learned from Ukraine's own reform successful are relevant to how we plan the recovery. I come back to what Mark said about ownership. Despite its problems, Ukraine has strong capacity and talented people with ideas. They know Ukraine; they go out into the field from the ministries to the local communities. They understand what works and what does not.

Ukraine has a vibrant civil society, something that I know really well, and I strongly believe that that was always a driver. In "civil society" I include the private sector, business associations and the IT sector. It was always proposing a modernising agenda for Ukraine. It was never pulling society back as a reactionary force. It was saying, and this is what they repeated at the URC, "We need to rebuild and modernise our institutions". There is a strong coalition of those people inside Ukraine, and they need to be trusted and supported.

The third lesson, for me, is that anti-corruption efforts must be almost streamlined across different sectors and programmes, and local-level monitoring—because Ukraine has decentralised—must be very strong.

Last but not least, we need to ensure that there is an increased information flow, so that all those excellent discussions taking place on the multi-donor co-ordination platform, in other capitals and in Kyiv are not hoarded and people have access to them. The modern economy is driven by data and information. People need to be aware of the impact of war on society, which we have not fully studied yet—how many of those Ukrainians in Europe will come back, how many will remain, and what will be the demographics of that population. We need to invest in data so that our projections—the concept that Natalie was talking about—are realistic.

Lastly, Spain after the civil war had political risk insurance. Israel has political risk insurance. We need to put those instruments on the table to ensure that investors already working in Ukraine who want to open a new business or relocate a business can do so. We should think about that

instrument not only for foreign investors but, first and foremost, especially during the hot phase of the war, for Ukrainian companies that are working, employing people and paying taxes.

Natalie Jaresko: You can take five lessons from the Balkans and other reconstruction efforts after wars and other events; I was involved after the hurricanes in Puerto Rico. First, you cannot have a successful recovery and reconstruction without security. It is fundamental. That is why the effort has to be increasing Ukraine's capacity to have victory in this war and ensure stability. I know you have made this a priority.

The second lesson learned is the long-term commitment of the donors. This cannot be a quick and dirty exercise. It is a long-term exercise, and we need a long-term commitment internationally both to resources and to interests. It has to go beyond the post-conflict phase. We cannot let this pass once we have peace.

The third is local ownership, which people have mentioned several times. Having successful reconstruction depends on local communities being involved and empowered, and the Ukrainian Government and people taking the lead in defining their future.

The next is transparency and accountability, without which, again, there will be no credibility for donors from the private sector. You have to build that trust, which also involves preventing corruption.

Lastly, there has to be a holistic approach. We have to address, as Orysia and Mark mentioned, not only the physical but the economic and political reconstruction, as well as the social dimension of this war, which is extraordinarily deep.

These are the five lessons that I take from previous reconstruction efforts and where we need to focus on doing better.

Mark Bowman: I very strongly agree that this is difficult, that it takes time, and that it is important to stay the course. The international community has to remain focused, and, of course, the risk that the international community moves on to the next crisis is key.

It is very interesting to look at the experience in eastern Europe—the success of economic modernisation there and the role of EU accession in that process. There is a more mixed picture in the western Balkans, which is a combination of political differences and differences not being resolved. I would also argue that the EU accession process, which had the potential to be transformative, stopped being transformative because people stopped believing that it would happen. That is key.

There is also the point about learning the previous lessons in Ukraine. From my contacts in Ukraine and from when I visit, I get such a strong sense that, given the sacrifices of the war and the resilience of the people, obviously peace and security are absolutely essential, but there is such a strong determination not to go back to the country of the past and

to transform into a modern economy. The potential to harness the power and the desire of the Ukrainian people is very strong.

- Q69 **Viscount Trenchard:** Looking more closely at the options that were discussed at the Ukraine Recovery Conference in June, it was notable that 500 private sector companies signed the Ukraine Business Compact. Are you optimistic that many of those companies really are ready and able to become involved in Ukraine's recovery and reconstruction, and what does this mean for the split between private sector and public sector participation in the financing of recovery?

Mark Bowman: Given the scale of the challenge and the important role of the private sector, stimulating private sector investment, both internally in Ukraine and foreign investment, will be key to success. The sums of money involved in reconstruction are too large for the public sector to fulfil in its entirety.

My reflection on the London conference is that yes, there is a strong desire to invest in Ukraine, but for many companies it is quite a long way off and they are quite a long way from having specific plans. Obviously, peace and security are essential, although—I defer to Ukrainian colleagues on the details of this—large parts of the country are relatively unscathed by the conflict. Certainly, the economy is functioning relatively normally in the west of the country, and there is the potential for investment even now.

In addition to peace and security, you also have to reflect that Ukraine was not as successful as it could have been at attracting foreign investment before the war. That goes back to all the standard issues of the rule of law, the business environment, reform of the judicial system, and the reform agenda. That all has to happen.

Just to bring it back to the role of the EBRD, we are a private sector-focused organisation, and a significant part of our investments are in the private sector. To summarise our job, in a sense it is to find opportunities to invest in Ukraine in order to demonstrate and catalyse private sector investment, to demonstrate that you can invest in Ukraine and get a commercial return on it. As I said earlier, we are investing in Ukraine at the moment. We are investing in private sector companies at the moment, and with a view to getting a return on our money.

Orysia Lutsevych: Just briefly, because I am sure Natalie will have more to say about this, I believe that now, as the war goes on, the private sector does not have a big appetite to go. We have to keep in mind that, for that to change, two things have to happen in addition to Ukraine's own reform agenda.

Number one is NATO membership more than the EU. Ukraine's clear pathway to NATO, which was announced in Vilnius but remains vague in practical terms, is not a good signal for investors. Investors understand that, from January, Ukraine will start negotiations to become a member of the common European market—eventually; it is not there yet—but if

we want to do something in the UK, if we want the private sector to go, it is important that we have a strong security cushion for Ukraine that is a transition decision while the war goes on.

However, a permanent solution is NATO membership. That will allow the private sector to come. Otherwise, yes, there will be people who are motivated and who already have investments, and they may want to increase their capital a little where they see opportunities in trade, logistics, ports, agriculture, green steel, digital and other things, but not in the immediacy of the next two years, the way I see it.

Natalie Jaresko: I will add just a couple of elements. Aside from security, which is first and foremost for private sector investment, the second thing we need to do is look at how best to use the existing public funds available to leverage and mobilise that private sector. Where in public-private partnerships, for example, can we derisk them in Ukraine with certain subsidies, guarantees or first-loss mechanisms? What has been used elsewhere? How do we leverage private investment? That, in and of itself, will be a process that takes time.

There is currently private-sector interest in participating in the tenders of my colleague Mark at the EBRD, the EIB, the CDB, the IFC or the World Bank. So there is interest in engaging in Ukraine, but investing in Ukraine presents a whole other set of challenges. Mark has covered some of them, but the next piece is the reforms. We have to convince the private sector community that there have been sufficient reforms and that we have moved ahead from where we were pre full-scale invasion, when they were not terribly active in investing. We need to convince them that the environment has changed on the corruption front and to give them factual proofs of that.

On the Ukrainian side, there is a requirement that we have more investable projects. For the DREAM system that Orysia talked about to be successful, it has to have lots of investable projects. That means we need the public sector to work on building capacity at local government level and local community level in Ukraine to ensure that those investable projects are there. They are not currently there in the numbers that you would hope and expect.

Those are the key things. We need to use the time to use public sector to leverage private sector money and to build and implement the reforms, along with the narrative that will inform the private sector that this is a different environment. We then need to have investable projects that they can actually focus on.

The Chair: Thank you very much. We have 15 minutes and three important questions to cover.

Q70 **Baroness Nicholson of Winterbourne:** Would our experts not agree that a significant proportion of the unwillingness of the private sector to invest lies in the inevitable unveiling of the level of corruption in-country, which makes it less attractive for the private sector to invest? Indeed, the

private sector does not seem to be visiting at the moment; it is using local staff members. It seems quite significant that they are not turning up and saying that they want to invest on the spot themselves; rather, they are hiring someone locally, which is not at all the same.

Might it be possible, and would it be desirable, for the EU to make the fight against corruption, which is well-organised, known and used in the EC and the EU, a top priority, in contrast to the immediately previous enlargement, where it was part of the effort but was not a top priority? It seems to me that, for all reasons, the fight against corruption should come right up front and people should talk very openly about it.

The Chair: Perhaps we should start with Natalie, who has been a Finance Minister in Ukraine and so has had direct experience of this.

Natalie Jaresko: I agree with you that it should be at the top of the list, and I believe that for many donors, including the EU, it is. It is at the top of the list for the IMF, the US list and many others. Continuing the anti-corruption effort is extremely important, but it is equally important for us to have much better communication about what has been done to date and what has changed in the environment. I believe that much of the business sector is relying on memories of pre 2014 and how the business environment functioned then.

The major improvements that we should be communicating include the focus on transparency within the Government, from the ProZorro public procurement process to e-data for transparency in public budgeting, and the mobile app Diia, which is digitalised government providing dozens of services for citizens without any communications with bureaucrats, and the recent declarations that are required of all government. So transparency has improved tremendously, and that is part of the anti-corruption effort.

Secondly, the whole fiscal decentralisation and the move to localised governance is critical to eliminating corruption. It requires local government—locally elected officials—to effectively utilise revenues, or civil society, which is an incredibly effective whistleblower in Ukraine, will call them on it. I do not think people realise that that decentralisation began in 2015 and has gone much further.

Thirdly, I am not sure everyone is aware that there has been a critical cut-off of strategic Russian assets. Those strategic assets, including the gas pipeline and the gas trade, were funding that corruption to a large extent, but almost all of those relationships have been cut off. We stopped buying gas from Russia directly in 2015-16, as a start.

Next, as you know, an entire world of anti-corruption entities was established: the National Anti-Corruption Bureau, the High Anti-Corruption Court and the Specialised Anti-Corruption Prosecutor. We need them to work better, but they are functioning.

Lastly, there are three inspectors-general from the US alone following the path of US money in Ukraine, reporting on it and showing that they have

found no significant problems. We think that creates enormous confidence.

So yes, it needs to be at the top of the reform agenda for all, including the EU, and for Ukraine most of all it needs to be at the top of the list, but most of all we need to start working on informing the business sector better of all the changes have occurred, because it is living in the past.

Baroness Nicholson of Winterbourne: As we are well aware, the immediately previous enlargement has still left major problems in the completion of the *acquis* due to corruption. I strongly suggest that we do not take a glossy view and think it is all wonderful. We know that Ukraine has tremendous resources and enormous potential. None the less, with the lessons of the previous enlargement in mind, we should place at the centre the fight against corruption in every possible way. I do not think the US way of fighting corruption is anything like the efficiency and competence of the EU.

Mark Bowman: I completely agree that corruption is a critical issue for stimulating private investment and for the EU, the UK, the US and donor countries to justify the resources to their taxpayers. It is important to address it, and good efforts have been made. It is about the reform of judicial systems, building up institutions, transparency and everything that Natalie said. It is one of the most important issues to address.

A small word of caution: there is a risk of badly designed policies leading to a kind of paralysis in the system, with government officials not being able to take any decisions because they are worried that, for unjustified reasons, anti-corruption agencies will crack down on them. That is something to watch out for when it comes to making sure that policies are well designed.

I have a quick comment on the observation about businesses travelling to Ukraine, which highlights a potential inconsistency in western policy. I had a conversation the other day with a potential investor in Ukraine who said, "Governments are encouraging us to invest in Ukraine, but at the same time are advising us not to travel there. That has consequences for the insurance we can get and raises our travel costs".

Orysia Lutsevych: That is absolutely true. I would like to bring a bit of perspective. We must understand that the corruption that currently underpins the system is the legacy of the totalitarian Soviet system. Let us not forget the damage that did. We should see it in a holistic way. Corruption happens in Ukraine to a large degree because there is a lack of checks and balances and independence of institutions. Ukraine has done a lot about that. It has digitised a lot of services to eliminate the middleman, and opened up and improved its tax collection systems, but the root cause that we still need to focus on is the independence of the institutions. It has been shown that when they are truly independent, they work.

To give you a statistic, in 2022 the High Anti-Corruption Court issued 33 guilty verdicts and transferred more than 1.2 billion Ukrainian hryvnia, the equivalent of £27 million, to the Ukrainian budget on corruption charges. If you build independent institutions that have no political interference, they will deliver for the Ukrainian people and the EU will enable the understanding of good governance and good institutions.

Ukrainians themselves demand the uprooting of corruption. The veterans who are coming back home, the volunteers who are supporting the front line, cannot stand a single act of corruption. If the Ukrainian system is not fixed, I do not want to see more violence coming from Ukrainian people against government officials. That is why the rule of law is key; if it is not in place, it will destabilise Ukraine post the war and even during the war, which would be very risky.

The Chair: I want to open up the question of the implications of Ukraine's accession to the EU. I gather that, this very morning, the Commission has adopted the recommendation that Ukraine, as well as Georgia and Moldova, should begin accession negotiations. That will go to the European Council at the end of the year, so it is a real subject.

Q71 **Baroness Anelay of St Johns:** I would like to focus on sanctioned assets. I appreciate that Madame Jaresko has referred to Russian state actors' assets, but I want to focus on the discussions that have been held that strongly promote the idea that we should be able to seize sanctioned assets, and perhaps the interest that has been earned on them, to use towards the reconstruction of Ukraine.

How feasible do our witnesses consider that might be within current legal structures in the EU and the UK? To come back to earlier questions about co-ordination, do you believe that the UK and the EU should co-ordinate their policies on the use of sanctioned assets? If so, how would you recommend that?

Natalie Jaresko: It is critical. The Russian sovereign assets from the central bank—approximately \$300 billion, mostly in Europe, the largest proportion in Belgium—are absolutely necessary for the financing of the reconstruction. I do not believe that public taxpayers in the UK or any other country will be willing to return those assets to the aggressor. They want to pay for the reconstruction instead. From a legal and justice perspective, the UN General Assembly resolution that formally recognised that Russia bears the legal consequences for its wrongful acts, including making reparations, is one of the legal baselines for that. The second is the International Court of Justice, which has found Russia in breach of norms of international law.

There are lawyers from the UK, the EU and the US actively working on mechanisms leaning towards a countermeasures approach rather than a sanctions one, which is what we as a global community used after Iraq invaded Kuwait; we transferred frozen sovereign assets to a trust for the purposes of reparations for those who had been harmed.

I believe that is possible, not necessarily at EU level but, rather, at nation-state level within Europe. I do not think we would get an EU Council decision, although maybe there would be an EU Council umbrella resolution. I believe that decisions would need to be taken at the national level. The UK is a leader here: it introduced legislation to allow sanctions to remain in place until compensation is paid. That opened a path, which is very important.

It is harder with private assets. With each country's due process, sanctioned "oligarch" assets from the REPO process will be complex, but the time is now for us to work together as a community and put in place what will be a complex but legal process, not just to take windfall taxes on the profits, and not just to take the profits, but to take the frozen assets and transfer them to a trust for the purposes of reparations for Ukraine and, potentially, for others who have suffered as a result of Russia's horrific war.

Baroness Anelay of St Johns: Thank you for that detailed answer.

Mark Bowman: I do not have too much to add on this question, which is for Governments and the G7. Obviously, there is a very strong moral case for using Russian assets to pay for the terrible destruction that it has caused. That said, there is a set of complex legal questions about the legal framework that you use and how you do so without undermining confidence in the international financial system. There are lively conversations within the G7 among central banks on this issue at the moment. As Natalie says, there are different levels of the discussion on whether you use the assets, the interest on the assets or windfall taxes on the tax paid on the interest. It is a legally complex issue.

Orysia Lutsevych: This is a very important question, and a huge national security priority. It is not just an economic issue; the proper seizure and redirection of those assets would also be a deterrent that would raise the cost of any future unprovoked aggressions. We see more and more hostile powers now, especially in the South China Sea—I am speaking about China—that will be looking at what happens with Russian assets and the cost that the Russian Federation bears. Clearly, Russia must pay, and this is one of our conclusions in the Chatham House report, *How to End Russia's War on Ukraine*.

We should remember that this also concerns the future of Russia itself. If Russians do not pay for their crime and there is no collective responsibility, essentially the de-Putinisation process will be stalled and we will live in the constant shadow of the risk of aggression in Europe that in the end will only increase the cost for all of us. That is why this is a hugely important step.

The Chair: Thank you. That was a very important question.

Q72 **Baroness Ludford:** I am delighted to end on a positive note, learning about the European Commission's decision recommending that the Council open accession negotiations with Ukraine. I want to explore the

implications of the candidacy of Ukraine and, indeed, the accession process in two respects.

First, what impact will the accession process have on the reconstruction perspective? Secondly, what are the implications for the access in negotiations with Ukraine, which I believe the UK should welcome, for UK-EU relations?

Orysia Lutsevych: It is an important moment to celebrate. There is not that much good news in the world these days, so let us understand the importance of this moment. It has been almost 20 years since the Ukrainian Orange Revolution. President Yushchenko wanted to apply for membership of the European Union, but he was always saying, "The door is open a little bit, but not fully". For Ukrainian society, membership of the European Union is part of victory. It means that Ukraine will be fully anchored, and its destiny is clear: it belongs in the European family of nations. There is no doubt about that.

The implications of that for recovery and Ukraine's future are huge, partly because there is such strong support for it—almost 89% of Ukrainians support membership of the EU—which means that any political force, any President of Ukraine, will have to deliver on that pre-accession membership pass. It also means there will be improved public investment, which will be more effective. That is what the EU does: it teaches the candidate country to work according to European rules. Some do not like those rules—we are in a capital where there was another decision—but it will be hugely, if I may use the term, medicinal for Ukraine. It will be a good remedy, because it will improve the business climate, and it will make Ukraine a greener country industry-wise because it will join the European Green Deal. It is an amazing opportunity to close the prosperity gap, because Ukraine will struggle to rebuild after the war.

Last but not least, we should not forget that the European Union also has a security clause. Article 42 of the Treaty of Lisbon, which was approved in 2007, means supporting Ukraine's defence sector and Ukrainian resilience. Today, many people are getting the hope they need in these dark times that there is light at the end of the tunnel, and membership of the EU is that light.

Mark Bowman: I very much agree with what has been said. The opening of EU accession negotiations is a very important moment, providing that real opportunity for Ukraine to transform into a modern, democratic European country that is fully embedded in the Euro-Atlantic alliance. It is also a powerful anchor for the whole reform process, although there are questions, as the process is very detailed. There are questions about how long it will take, and how you can keep up the enthusiasm and manage expectations on the timeline. As we have discussed throughout this committee, there is also the important role of other players in Ukraine and the support for it, so it is not the only process. There will be shorter-term objectives on reform and, obviously, support from non-EU players.

On the question of UK-EU relations, do you mean in relation to Ukraine or more broadly?

Baroness Ludford: More broadly, really.

Mark Bowman: That is a good question. I would make two quick points. After some difficult years in the UK's relationship with the EU and Brussels, the Ukraine crisis has clearly highlighted the importance of collaboration and working together. As I say, there have been some good examples of that.

The more difficult question is how the EU will respond to Ukraine's membership. How will it reform itself internally? There has always been a discussion about how the EU should interact with its nearest neighbours and whether EU membership should be just black and white, or whether there should be different levels of co-operation. Time will tell. That is not a new debate. You will have seen within the last year or 18 months the formation of the European Political Community, which the UK is part of. A question remains as to what comes out of those discussions and, despite the potential desire of the EU to have different levels of its relationships, whether that can actually come to anything meaningful.

Natalie Jaresko: I agree with Orysia; it is extraordinarily good news. As someone who stood on the maidan in 2004, and then again in 2013 with my children, this means that the door is open. Now the work begins, and this is extraordinary.

I will comment only on the reconstruction. On the good side, this will create more confidence, in particular for the private sector, about the path that Ukraine is on. It is important, as we all discussed earlier, to get the private sector involved in this reconstruction in a real way.

However, I also see a complication; it is an issue of sequencing in the timing of implementing EU regulation and EU standards. Every time we want to build a road, we need to determine whether we are building it under current Ukrainian building code and law or under EU regulation. The timing of when that change happens is very important in every building element—every green element that, as mentioned, comes along with the EU.

How we sequence when we move every one of these codes and regulations affects the reconstruction. I do not want that sequencing and timing to hold things up, but we need to take into account that roads built under EU regulations are more expensive than roads built under Ukrainian regulations, so there will be a cost element here that we have to recognise as well. Timing and cost—the sequencing of how those EU regs are implemented in Ukraine—will certainly affect the reconstruction.

The Chair: Very good. Thank you very much indeed to all three witnesses for a fascinating session. I am sorry that we have gone slightly over our time, but thank you for your time and for all those interesting observations, which we will now take away and digest for our report.