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Stronger EU support for Ukraine: Reflections on the EU's toolbox and processes

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The Ukraine Facility, in place since March 2024, represents the EU's most ambitious external financial instrument to date - combining macro-financial assistance, investment guarantees and technical assistance. This paper reflects on the facility, the EU's capacity to support a country at war, and what lessons must shape the next instrument under the 2028-2034 Multiannual Financial Framework (MFF). The design choices made now will determine whether EU support remains a credible strategic anchor and build the long-term strategic partnership that Ukraine and the EU's own geopolitical interests require. It is clear that the facility has delivered at remarkable speed: six tranches disbursed by the end of 2025, €19.6 billion mobilised in 2024 alone, and a conditionality framework credible enough to trigger a partial disbursement when reform benchmarks were unmet. A €90 billion Ukraine Support Loan for 2026-27 has since extended the EU's commitment at scale.

Yet each of the facility's genuine innovations came with unresolved tensions. First, since speed was paramount, the governance of the facility lacked an integrated strategic oversight mechanism, with three separate ones operating in parallel: within the Commission, between the Commission and member states, and across an uneven EU27. Second, the three-pillar integration was designed but not fully operationalised, with limited synergies. Third, conditionality has worked well in the early stages, but faces mounting political and institutional strain as reforms become structurally harder and wartime capacity constraints tighten. Fourth, private sector engagement instruments and approaches, though laudable, need to be further tailored to contribute to the EU's geostrategic interests. Fifth, local authorities and civil society remain outside the formal governance architecture. Last, the facility's front-loaded design created a financing cliff that the Support Loan has addressed in design but not yet in delivery.

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Executive summary

Since Russia's full-scale invasion in February 2022, the EU and its member states have mobilised approximately €200 billion in assistance, covering close to 75% of Ukraine's external financing needs following the US's significant scaling back of engagement since January 2025. At the centre of this response is the Ukraine Facility, a €50 billion instrument in place since March 2024, combining macro-financial assistance (Pillar 1), an investment framework (Pillar 2), and technical assistance (Pillar 3) under one tool, linked to a reform agenda aligned with Ukraine's EU accession path. This paper does not evaluate the Facility. It reflects on its design, what it got right, what tensions its innovations have generated, and what lessons must shape its successor under the 2028–2034 Multiannual Financial Framework (MFF).

What the Facility got right

The Facility's five core innovations deserve recognition.

1. Its **speed and scale** were unprecedented: proposed in June 2023, operational by March 2024, with six tranches disbursed and €19.6 billion mobilised in 2024 alone.
2. Its **three-pillar integration**, i.e. budget support, investment framework, and technical assistance in one framework, was a deliberate break from siloed predecessor instruments.
3. Its **reform conditionality** has proven genuinely effective: the partial fourth tranche demonstrated it is real, not performative, sustained by Ukraine's fiscal dependence on EU support, a co-designed reform agenda, early sequencing around structural reforms, and the accession anchor that gives compliance domestic political legitimacy.
4. The **Ukrainian ownership architecture**, i.e. three ministries coordinating on a jointly drafted Ukraine Plan, with an independent Audit Board assessing public financial management, represents a structural condition for conditionality to function.
5. And the **embedding of European economic interests** through Article 11, calls for expressions of interest, and the EIF export credit pilot represents the most explicit attempt in EU external action to align financial support with European private sector participation.

Where tensions remain

Governance is fragmented across three levels. No single Council body or Commission service holds a comprehensive view across all three pillars, which risks a two-tier dynamic with direct consequences for MFF negotiations. This reflects a broader structural challenge in the Council's external action architecture that will intensify under the Global Europe Instrument.

Three-pillar integration remains incomplete. Technical assistance and investment support proceed in parallel. The gap is most acute at the local level, where all three pillars converge on the same municipalities without shared oversight or a single EU entry point. Ukraine FIRST and the EIB's JASPERS programme are meaningful steps, but oriented primarily toward national infrastructure scale. While the Regulation allows for a broader range of implementing counterparts including bilateral development finance institutions and public development banks, MDBs including the EIB have taken a key role in the implementation of Pillar 2.

Conditionality faces growing strain. As reforms move to structurally harder benchmarks, for instance on judiciary, decentralisation, anti-corruption institutional independence, wartime capacity constraints are widening the gap between design and delivery. The EU has inherited the 'critical friend' function the US previously exercised, without yet having the institutional voice to play it fully.

Article 11 remains more signal than reality. Without a precise definition of 'strategic European interests', implementing partners have applied inconsistent interpretations. The provision is untrackable for the €33 billion in budget support, and a compliance-heavy regulatory approach risks deterring rather than attracting implementing partners. Flexible demand-side instruments, such as business development support, prequalification, weighted evaluation criteria, deserve equal attention alongside regulatory revision.

Local ownership is structurally thin. With decentralisation on hold under martial law and civil society monitoring legally unsecured, the public investment management reform risks becoming a framework that works well at the centre while leaving local actors behind, precisely where reconstruction must ultimately be delivered.

The 2026-27 financing gap has been addressed in design, not yet in delivery. The €90 billion Support Loan addresses the gap in principle, but its delayed first

disbursement illustrates a systemic vulnerability: unanimity constraints allow individual member states to hold up even politically agreed and legally adopted instruments. The broader question of frozen Russian sovereign assets (over €200 billion) remains unresolved.

Looking ahead

The Facility matters beyond Ukraine. It is the most significant attempt the EU has made to act as a strategic external actor at scale, and its design choices are already shaping the Global Europe Instrument and Ukraine Reserve under the 2028–2034 MFF. How the balance between executive flexibility and political steering is resolved here will set a direct precedent for what follows.

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Acronyms

ARMA	Asset Recovery and Management Agency
Art. 11	Article 11 strategic procurement
CoE	Council of Europe
CRM	Critical Raw Materials
DG ENEST	Directorate-General for Enlargement and the Eastern Neighbourhood
EIFO	Export and Investment Fund of Denmark
EC	European Commission
ECA	Export Credit Agency
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
EIF	European Investment Fund
EP	European Parliament
ERA	Extraordinary Revenue Acceleration (G7 loans backed by frozen Russian asset profits)
EU	European Union
EUD	EU Delegation
EU-LEAD	EU Local Empowerment Accountability and Development Programme
G7	Group of Seven: Canada, France, Germany, Italy, Japan, the United Kingdom, the United States
IFI	International Financial Institution
IMF	International Monetary Fund
MDBs	Multilateral Development Banks
MENA	Middle East and North Africa
MFF	Multiannual Financial Framework
MoDev	Ministry of Development

MoE	Ministry of Economy
MoF	Ministry of Finance
MS	Member State(s)
PIM	Public Investment Management
RDNA	Rapid Damage and Needs Assessment
RESUA	Working Party on Ukraine Reconstruction (Council of the EU)
RRF	Recovery and Resilience Facility
SME	Small and Medium-sized Enterprise
SNE	Seconded National Expert
SPP	Single Project Pipeline
TA	Technical Assistance
UDP	Ukraine Donor Platform
WB	World Bank
WP	Working Party

Introduction

Since Russia's full-scale invasion of Ukraine in February 2022, the EU and its member states have mobilised approximately €200 billion in assistance, military aid, humanitarian relief, macro-financial support, and technical assistance, including €3.7 billion from the proceeds of immobilised Russian assets" (European Commission, 2026a). This is an unprecedented level of external support for a single country, and it reflects both the scale of Ukraine's needs and the strategic importance the EU has attached to Ukraine's survival, recovery, and European integration.

The challenge is significant. The latest Rapid Damage and Needs Assessment (RDNA5), published in February 2026, estimates the total cost of Ukraine's reconstruction and recovery at nearly $588 billion over the next decade, which is approximately three times Ukraine's projected 2025 GDP (World Bank et al., 2026). According to an EU assessment, an additional estimated €136 billion will be required to support the EU accession process itself (Darvas and Tagliapietra, 2024).

Against this backdrop, the EU is now covering approximately 75% of Ukraine's external financing needs, a role previously shared with the United States, which has significantly scaled back its financial and political engagement since January 2025 (Kiel Institute, 2026). At the centre of the EU's response is the Ukraine Facility, in force since 1 March 2024, providing €50 billion in grants and loans for 2024–2027.

The EU's support to Ukraine is shaped by three deeply intertwined agendas: accession, reconstruction and defence. They cannot be understood as a simple sequence of stages. Reconstruction is already underway amid ongoing conflict; accession reforms are being pursued in parallel; and defence investment increasingly blurs into reconstruction, particularly through dual-use infrastructure and strategic resilience. This overlap challenges the EU to build in a coherent and synergetic manner instruments and governance structures that reflect this strategic entanglement.

The note focuses on the Ukraine Facility (hence on accession and reconstruction, not defence) with a view not to evaluate the Facility, but rather reflect on its design: what the Facility got right, what tensions its innovations have generated, and what lessons must inform its successor under the 2028–2034 MFF. It draws on desk research and over 35 interviews conducted with representatives of EU institutions, Member State permanent representations, the EU Delegation in Kyiv,

international financial institutions, the Ukraine Donor Platform Secretariat, civil society organisations, and the Government of Ukraine. Section 1 maps the Facility's key design innovations and what makes it genuinely new. Section 2 examines the challenges and unresolved questions that accompany each innovation. The conclusion draws out the two most important tensions and situates the Facility's challenges in the broader context of EU external action.

1. Strategic design of an innovative instrument

The Ukraine Facility was widely described by interviewees as fundamentally well-conceived. This section sets out, with some precision, what makes it innovative and why those innovations matter.

1.1. Speed and scale without precedent

Proposed by the European Commission in June 2023, adopted by the Council of the European Union and the European Parliament (EP) in February 2024 (Council and EP, 2024), and operational within weeks, the Facility was designed and launched at a speed considered unusual for an EU instrument of this complexity. Its remarkable speed drew on the institutional muscle memory of the Recovery and Resilience Facility (RRF) (Fabbrini, F., 2024) and the EFSD+ mechanisms, and early implementation's lessons learned (EC, 2024b; Hauck et al., 2024). By the end of 2025, six tranches had been disbursed under Pillar 1, with €19.6 billion mobilised in 2024 alone (Council, 2024a & 2025a). This speed was itself a form of political signalling that the EU could act decisively at scale.

The Facility's deployment also benefited from a significant increase in staffing - a sine qua non condition to deliver support in time and at scale: the Ukraine Service within DG ENEST grew from 35 to approximately 100 people, with around 40% being Seconded National Experts (SNEs) paid by their home governments (demonstrating a real Team Europe effort and commitment). Similarly, the EUD staff grew significantly over 3 years. This allowed rapid scaling of technical expertise without creating permanent structural commitments.

1.2. Combining three instruments under one roof

The Facility's three-pillar structure, i.e. budget support linked to reform performance (Pillar 1), blended investment guarantees and loans (Pillar 2), and technical assistance (Pillar 3), brought together what had previously been separate instruments. The design logic was clear: macro-fiscal stability, investment mobilisation, and institutional capacity-building are interdependent

and should be coherently addressed. The objectives of the facility are not new, but combining everything together in a facility is what appeared to be new (partly inspired by the European External Investment Plan initiated in 2017, which only focused on Africa and MENA). This integrated architecture was a deliberate break from the siloed approach of predecessor instruments.

The Facility also built in flexibility for member states and third countries to top up individual pillars. Sweden's €185 million contribution (SEK 2 billion, according to the Government Offices of Sweden, 2025) to Pillar 3, considered as a sign of confidence towards the instrument, and Denmark's active involvement in sector-specific programmes illustrate this model in practice.

Figure 1. The Ukraine facility: key features

Ukraine Facility (2024–2027)
€50 billion · Regulation (EU) 2024/792 · In force 1 March 2024

	Pillar 1 — Budget support	Pillar 2 — Investment framework	Pillar 3 — Technical assistance
Envelope	**Up to €38 billion**	**Up to €9.5 billion**	**MS top-up contributions**
Conditionality / Logic	Loans + non-repayable support to the Ukrainian state budget	Guarantees, grants and concessional loans to leverage private and IFI investment	Capacity building, reform support, project preparation and technical advisory services
Governance	Quarterly disbursements linked to Ukraine Plan reform benchmarks Partial disbursement if benchmarks unmet (4th tranche: 13/16 met → €3.2bn of €4.5bn)	Aim: leverage €21bn+ in total investment Art. 11 strategic procurement preference for EU companies and content	Demand-driven; MS and third countries top up (SE, DK, FI, LT, NO) EU4Reconstruction programme launched in 2025 to fill USAID gap
Key feature	Council Implementing Decisions via RESUA (unique for EU external instrument)	Investment Framework Steering Board · Ukraine as observer · EIB / EBRD / WB as implementing IFIs	Ukraine Committee (comitology) · EU Delegation Kyiv (day-to-day oversight)
	6 tranches disbursed by end-2025 · €19.6bn mobilised in 2024	*EIF export credit pilot · Calls for expressions of interest · €6.9bn committed by early 2026*	*Informal CSO monitoring facilitated by Bankwatch Network · Public investment management (PIM) reform support*

Source: authors, based on Regulation (EU) 2024/792; EC Annual Report (2025); Council decisions on tranches 1–6; interviews

1.3. Reform conditionality that works

The results-based conditionality model, i.e. quarterly disbursements conditional on verified delivery of specific reform steps, has proven effective in the Facility's first two years of implementation. Ukraine fulfilled all conditions in the first three tranches, and the partial disbursement of the fourth (13 of 16 steps met; €3.2 billion disbursed rather than the full €4.5 billion) demonstrated that the

mechanism is real rather than performative, despite significant political pressure to disburse regardless (Council, 2024a, 2025a, 2025c).

This approach is not entirely new as the results-based budget support and milestone-linked disbursements have precedents in the EU's neighbourhood policy and, more recently, in the Recovery and Resilience Facility for EU member states. What is distinctive in the Ukraine context is **the combination of scale (€50 billion), quarterly rhythm, and the direct link between disbursements and a reform agenda that doubles as accession preparation**, with Council Implementing Decisions adding a formal Member State approval role at each disbursement.

Several factors explain why the model has worked as well as it has, and they go well beyond the disbursement architecture itself. First, the **fiscal context** creates an unusually strong conditionality lever: Ukraine depends on the EU for approximately 70% of its external financing needs, meaning that non-disbursement is genuinely intolerable for public service delivery and wage payments. The incentive to comply is structural, not merely reputational. Second, the **Ukraine Plan** was co-designed with the Ukrainian government rather than externally imposed. Several interviewees on both sides emphasise that the reform benchmarks largely reflect Ukraine's own priorities, EU accession reforms that were politically supported before conditionality was attached to them. This ownership provides the Ukrainian government with a domestic political justification for difficult measures. Third, the **early tranches** were deliberately **sequenced around reforms where political will and administrative capacity** already existed (corporate governance, some anti-corruption architecture, digital public services), building a track record before the harder structural reforms (judiciary, decentralisation, anti-corruption institutional independence) came into scope. The partial fourth tranche is the first real test of conditionality under structural strain, and its outcome suggests the model holds, but also that this phase will be more contested. Fourth, the **accession anchor** gives conditionality a strategic legitimacy that pure donor conditionality lacks. The Ukraine government can frame compliance not as external pressure but as a step toward EU membership, which is a goal with strong domestic support that provides political cover for reforms that would otherwise be more costly.

Figure 2. The Ukraine Plan: the reform conditionality backbone

Ukraine Plan: the reform conditionality backbone
169 milestones across 6 reform clusters · Aligned with EU accession acquis · Quarterly verification by European Commission

Key design features

Reform conditionality	Three-pillar integration	Ukrainian ownership	Predictability	EU economic interests	Independent oversight
Results-based quarterly disbursements	Macro-fiscal + investment + capacity building	Co-designed Plan; observer in governance	4-year planning horizon for Ukraine	Art. 11 + EIF export credit pilot	Audit Board — first for EU external instrument

Main actors

DG ENEST	RESUA	EIB / EBRD / WB	EUD Kyiv	Ukraine MoF, MoE, MoDev
Commission lead + Ukraine Service (~100 staff)	Council WP · Pillar 1 implementing decisions	IFIs implementing Pillar 2 investments	On-ground coordination · Pillar 3 oversight	Government counterparts; Ukraine Plan co-designers

Source: authors, based on Regulation (EU) 2024/792; EC Annual Report (2025); Council decisions on tranches 1–6; interviews

The quarterly disbursement rhythm also provides something that interviewees consistently identified as highly valued: **predictability**. In a context of radical uncertainty about the war's duration and the fiscal outlook, a four-year instrument with a fixed disbursement calendar functions as a medium-term anchor, allowing budget planning for the Ukrainian government.

1.4. Embedding European economic interests

The Facility represents a more **explicit attempt than previous EU external instruments to align financial support with European economic interests**. This is pursued through four main channels.

First, Article 11 provides a new framework for **strategic procurement** that includes a preference for European contractors and content. Second, **calls for expressions of interest** allow European private sector actors to put forward investment proposals. Third, the **Ukraine Export Credit Guarantee Facility**, managed by the European Investment Fund (EIF), is a first-of-a-kind instrument meant to enhance the capacity of European export credit agencies (ECAs) to support European SMEs

requiring trade finance solutions to invest in Ukraine. Fourth, **technical assistance** at the policy and project level is also used to accompany and facilitate both domestic and European public and private investment.

Whatever the operational difficulties (addressed in Section 2), **the political ambition embedded in these provisions is genuinely new for an EU external instrument**.

1.5. Ukrainian ownership as a design principle

Ukrainian ownership is built into the Facility's architecture in ways that go beyond the consultative arrangements typical of comparable EU external instruments. Ukraine drafted the Ukraine Plan (Council, 2024), which is the reform agenda that structures disbursements across all three pillars, rather than receiving a pre-designed conditionality framework (Council, 2026a). Its ministries sit as observers on the Pillar 2 Steering Board and co-chair the technical working groups in Kyiv alongside the EU Delegation, giving Ukraine a direct role in the instrument's operational governance, not only in its political framing. Three ministries (Finance, Economy, and Development) are formally and simultaneously involved in its implementation, which has encouraged Ukraine toward a **whole-of-government coordination dynamic** that does not come automatically and represents a strong governance achievement: ministries that had a limited tradition of coordinating across portfolios have been required to align on a single reform pipeline, with a shared accountability structure. An **independent Audit Board** (EC, 2025), which is a first for an EU external instrument, was established to assess the adequacy of Ukraine's own public financial management and control systems, providing the institutional assurance that justifies disbursing large-scale budget support without project-level financial tracking, rather than evaluating the quality of reforms themselves (in the hands of the European Commission).

This ownership architecture is not merely a design feature of the Facility's governance: it is a **structural feature for conditionality to function**. Conditionality works partly because the reform agenda was co-designed. Ukraine cannot credibly frame the benchmarks as externally imposed; its ministries have a direct stake in demonstrating compliance, and the whole-of-government coordination architecture distributes the compliance burden across institutions rather than concentrating it in a single bottleneck. The partial disbursement of the fourth tranche was politically sustainable, on both sides, precisely because the Ukraine Plan was Ukraine's own plan.

That said, the ownership architecture also has limits. Ownership is concentrated at the level of the three ministries, and the reforms now proving hardest to deliver (judiciary independence, decentralisation, and anti-corruption institutional reform) **sit largely outside the Finance-Economy-Development triangle** (Ministry of Economy of Ukraine, 2026). Ownership at the level of those ministries does not automatically generate buy-in from the courts, the Asset recovery and management agency (ARMA), or subnational governments, where implementation must actually happen. And **below the central government level, ownership is structurally thin**: civil society's monitoring role remains informal and legally unsecured, and local authorities, who will ultimately bear significant responsibility for the reconstruction delivery, have no formal role in the Facility's governance architecture. This gap between the strength of ownership at the centre and its weakness at the institutional and sub-national level is examined further in section 2.5.

2. Some remaining challenges

Each of the Facility's innovations has also generated tensions that the current framework leaves unresolved. These difficulties are not incidental — they arise directly from the conditions under which the instrument was created: the speed of design, the wartime operating environment, and the structural fragility of unanimity in EU decision-making. In the medium-term, naming these tensions could contribute to better addressing them in the next framework.

2.1. A governance architecture that was designed to be temporary, and the tensions that followed

The Ukraine Facility's governance architecture was in large part a deliberate political settlement. Giving the Council an explicit approval role for each Pillar 1 payment (through Council Implementing Decisions via RESUA) was unusual for an EU external instrument, and was explicitly acknowledged as temporary in the joint interinstitutional declaration of February 2024. The intent was to **provide political legitimacy and Member State ownership for a scale of funding without precedent in EU external action, while keeping implementation authority with the Commission**. The result is a **layered architecture in which three distinct oversight mechanisms** operate in parallel: Council Implementing Decisions for Pillar 1 disbursements, the Investment Framework Steering Board for Pillar 2, and standard comitology for Pillar 3 (EC 2024). No single Council body or Commission service holds a comprehensive view across all three simultaneously, a structural feature that has become a source of mounting tension as the Facility has scaled up.

Three coordination challenges have emerged in practice, each with implications that can extend beyond the Ukraine Facility to the governance of the Global Europe Instrument and the Ukraine Reserve.

Box 1: The fragmented governance of the Ukraine Facility

The Facility's three pillars are governed through distinct mechanisms:

- Pillar 1 (budget support): Council Implementing Decisions, adopted by RESUA working party by qualified majority; the only EU external instrument where the Council approves individual disbursement decisions.
- Pillar 2 (investment guarantees): Investment Framework Steering Board, with Member State representatives, managed separately from Pillar 1, with Ukraine as an observer.
- Pillar 3 (technical assistance): Standard comitology (Ukraine Committee), implemented in large part through the EU Delegation in Kyiv, with the least visibility to MS in Brussels.

No single Council body currently has a comprehensive overview of all three pillars simultaneously. The fragmentation is not confined to the Council: within the Commission, no single unit holds a comprehensive view across all three pillars, and within member states, responsibilities are typically split across foreign affairs, development, finance, and trade ministries with limited internal coordination. The most complete operational picture sits not in Brussels but with the EU Delegation in Kyiv.

Source: ECDPM, based on Regulation (EU) 2024/792 establishing the Ukraine Facility; European Commission (2025a); Council of the European Union (2025a; 2025b); interviews with EU institutions and member states (2025/2026)

The first is internal to the Council. The three pillars fall under different Council working parties: RESUA for Pillar 1, with COEST, CODEV, and RELEX relevant to different dimensions of Pillars 2 and 3. These do not systematically coordinate with each other and bring different mandates, institutional logics, and thematic priorities to the instrument. Even within RESUA, whose delegates often sit simultaneously across several of these working parties, building the kind of sustained, cross-cutting expertise that effective steering of a complex three-pillar instrument requires has proven difficult. Successive presidencies, such as Denmark and Poland, invested significantly in making RESUA more substantive, but the quality of Council engagement has depended on presidential initiative rather than structural design. This is not a RESUA-specific problem: it reflects a broader fragmentation in the Council's external action architecture that already constrained oversight of NDICI-Global Europe, and that will become more acute

under the Global Europe Instrument, where the scale, conditionality logic, and geopolitical ambition of EU external financing will generate even greater demands for coherent Council steering.

The second challenge concerns coordination between the Commission and member states. Perceived as exclusive by the MS, from Brussels, the Commission's interface with Kyiv on Pillar 1 is operationally justified: a more distributed arrangement would slow implementation and risk the kind of political disruption that unanimity constraints make a genuine concern. But several member states have flagged two related problems: 1/ information flows that are insufficiently timely, detailed, or consultative, with decisions tending to arrive as fait accompli rather than live options; and 2/ a lack of meaningful strategic steering capacity, the ability to influence priorities and sequencing upstream, rather than to scrutinise decisions already taken. This tension is structural rather than contingent: the Facility represents a new category of EU external instrument, explicitly geopolitical and conditionality-driven in ways that traditional development financing was not, and it therefore generates genuinely competing demands for the executive flexibility that effective implementation requires and the political steering and democratic oversight that member states and the European Parliament expect. How that balance is struck in the Ukraine Facility will set a direct precedent for the Ukraine Reserve and the Global Europe Instrument.

The third challenge concerns coordination among member states themselves. Engagement with the Ukraine Facility is not evenly distributed across the EU27. Member states with a presence in Ukraine, participation in G7-format coordination, or significant bilateral programmes, have developed expertise, networks, and visibility that others lack. Those outside the G7 extended Ukraine Donor Platform (UDP) receive information largely through RESUA debriefs. This risks producing a two-tier dynamic within the Council: a core of deeply engaged member states shaping the instrument's strategic direction, and a broader group whose limited expertise and information access makes active engagement difficult to sustain. The implications reach beyond the current instrument: Member State engagement and buy-in will be essential for the MFF negotiations, and a widening gap in knowledge and interest between more and less engaged MS could affect the political coalition needed to sustain ambitious EU support to Ukraine in the next budget cycle.

2.2. Three pillars, insufficient bridges

The Ukraine Facility's three-pillar architecture was designed on the premise that macro-fiscal stabilisation, investment mobilisation, and capacity building are

interdependent and should be managed coherently. In practice, **the integration between pillars has proven more difficult to achieve than the design anticipated**. Each pillar operates under different eligibility rules, management structures, timelines, and implementing partners, with no systematic coordination mechanism to ensure that what one pillar finances builds on or enables what another is doing.

The housing sector illustrates the problem concretely. Reform conditionality on housing codes sits as a Pillar 1 milestone; investment guarantees for social housing construction are available through the World Bank and CoE Development Bank under Pillar 2; and municipal capacity building is supported under U-LEAD through Pillar 3. These three instruments address different dimensions of the same policy challenge, yet they are governed, monitored, and reported on through entirely separate tracks. The result is that policy-level technical assistance and project-level investment support proceed in parallel rather than in tandem, each informing the other too little and too late. This disconnect is felt most acutely at local level, where Pillar 2 investment guarantees, Pillar 3 technical assistance, and the public investment management reform supported under the Ukraine Plan all converge on the same municipalities, but arrive without a shared operational overview or a single EU entry point for local authorities trying to access them.

The eligibility architecture of Pillar 2 compounds this problem. While the Regulation allows for a broader range of implementing counterparts including bilateral development finance institutions and public development banks, MDBs including the EIB have taken a key role in the implementation of Pillar 2. This is partly explained by their past experience and track record in the country and their human and financial capacities to originate and finance operations. This does not mean that smaller players are excluded: in fact, a few have launched recent initiatives focusing on Ukraine, such as Swedfund’s Business Accelerator, or DEG’s Ukraine Connect programmes, and intend to play a growing role under Pillar 2. Yet, smaller DFIs participation, though important especially to address smaller investment ticket size, remains generally challenging owing to more limited capacities, resources, and local presence.

A related gap concerns actors that are relevant to the Facility's investment objectives but sit outside its governance architecture entirely. Export Credit Agencies, which several member states deploy effectively in their bilateral support to Ukraine, are not formally integrated into Pillar 2 governance mechanisms. Their exclusion limits their visibility on investment opportunities where they could add value, and weakens the link between EU-level investment

support and national instruments for private sector engagement, particularly for smaller member states that rely on ECA capacity rather than large bilateral programmes. Integrating ECAs into Pillar 2 governance, alongside a broadening of implementing eligibility, would make the investment framework better connected to national instruments and more capable of reaching the parts of Ukraine's reconstruction where IFIs alone cannot go.

2.3 Conditionality is working, and becoming more politically difficult

The reform-for-funds model has proven credible in its first two years of implementation. **But the Facility is now moving from relatively tractable early reforms,** such as public administration, CRM legislation, green transition, to structurally harder ones: judiciary reform, judicial vetting, decentralisation, and anti-corruption institution independence. The partial disbursement of the fourth tranche (three reforms unmet, including decentralisation, ARMA reform, and judicial selection) illustrated this trajectory.

Wartime conditions constrain institutional capacity in ways that go beyond the political will. The judiciary also suffers from severe understaffing; candidate pools for judicial appointments have shrunk; and the expected return of qualified professionals from abroad has not materialised at the pace envisioned when the Ukraine Plan was designed.

At the same time, the **partial tranche triggered domestic political narratives of external pressure at a moment when Ukraine needs solidarity**. Several interviewees noted the risk of the "honeymoon is over" dynamic, not a breakdown, but a shift in the tenor of the relationship. The EU needs to maintain conditionality credibility without it becoming a liability for Ukraine's government or fuelling anti-EU sentiment.

There is also a **structural question about the sequencing of reform demands**. The Ukraine Plan was written assuming the war would not last as long as it has. Some reforms that were feasible in 2024 are much harder in 2026, and some reforms that will be critical post-war (decentralisation, for example) are being put on hold precisely because wartime requires centralisation of authority. The revision of the Ukraine Plan in autumn 2025 was a pragmatic acknowledgement of this. At the same time, it also raises the question of how conditionality is calibrated across the remaining life of the Facility and its successor.

The **EU also faces a "critical friend" deficit. With the US no longer actively pushing reform conditionality** (Sukhov, 2025), having withdrawn budget support

and scaled back its engagement in the G7 ambassador reform forum, the EU has de facto inherited that role without formally endorsing it. It might be challenging to calibrate its role as a critical friend in this context: frank enough to push on difficult reforms, but politically credible enough for Ukraine to accept the push. The G7 ambassadors' group in Kyiv played this role effectively (Cabinet of Ministers of Ukraine, 2025); whether the EU can replicate it institutionally is an open question.

2.4. European economic interests: the right ambition, a difficult operationalisation

Article 11 was a political achievement: an explicit European preference clause in an EU external instrument, which was replicated in other facilities and inspired Article 20 of the Global Europe Instrument proposal (EC, 2025e). The political logic is sound: given the scale of EU public funding, there is a legitimate interest in ensuring that EU companies benefit from reconstruction opportunities and that strategic supply chains are reinforced. There is broad agreement that this type of mechanism is necessary. But the provision was designed to advance European strategic interests in Ukraine's reconstruction **without a sufficiently precise definition of what those interests are: whether in terms of market positioning, supply chain integration, or deepening Ukraine's economic ties with the EU**. That conceptual ambiguity has made consistent operationalisation difficult from the outset and lies behind many of the implementation challenges that have followed.

Three implementation problems have emerged in practice:

First, **the provision is particularly challenging for multilateral development banks with non-European shareholders**, which cannot be seen as promoting the private sector of specific countries or regions over others, which is a tension that risks impeding MDB participation in the Facility altogether, with consequences for European development finance institutions more broadly (Karaki et al., 2025).

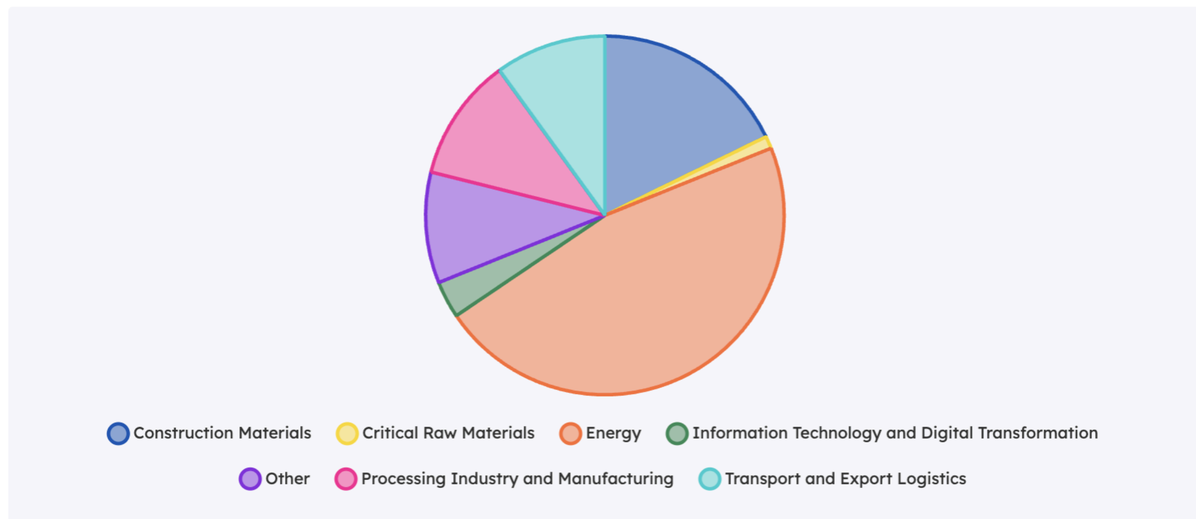
Second, **the provision has been interpreted inconsistently across IFIs and implementing agencies**: different thresholds below which Article 11 does not apply have been negotiated separately, affecting both the level playing field and the expected impact of the provision.

Third, **for the approximately €33 billion in budget support under Pillar 1** (EP and Council, 2024), **Article 11 is effectively untrackable**: budget support is fungible by design, and no dedicated monitoring system exists to provide an overview of its implementation to date.

The Commission and member states have acknowledged that a more sophisticated approach is needed. Proposals under discussion range from adapting the regulatory scope, limiting Article 11 to strategic industries, introducing common participation thresholds, or providing Commission interpretation guidance rather than leaving it to implementing partners, to more flexible, non-regulatory instruments that may prove equally or more effective in practice. A compliance-heavy approach risks being both difficult to enforce and counterproductive: it can deter implementing partners through administrative burden while failing to generate the European private sector participation it is designed to achieve. **More flexible alternatives deserve equal attention alongside the regulatory debate**. These include enhanced business development support to make EU firms aware of and prepared for upcoming opportunities before calls are issued; tailored prequalification mechanisms that help capable European firms meet the technical and operational thresholds that currently exclude them; and weighted evaluation criteria that reward high-quality, sustainable, and innovative European solutions without imposing rigid preference requirements that raise procurement integrity concerns. The most effective approach is likely to combine a simplified and clarified regulatory framework with these demand-side instruments, treating Article 11 not as a standalone preference clause but **as one element of a broader strategy to strengthen European private sector participation in Ukraine's reconstruction**.

Beyond public procurement, DG ENEST established calls for expressions of interest as a complementary mechanism to engage European businesses directly. These attracted over 200 proposals, predominantly from SMEs — a genuine success in terms of engagement (EC 2025a; Ukraine Investment Framework, 2026). However, the selection process did not include bankability assessments, meaning that selected projects may struggle to secure financing from European financial institutions. Engaging European financial institutions systematically and earlier in the process, so that investment viability is assessed before rather than after project selection, would reduce the risk of generating private sector frustration and improve the conversion rate from proposal to concrete investment.

Figure 3: Proposals by sector



Source: [UIF Ukraine, 2026]

The EIF export credit pilot has generated significant interest, with several transactions in advanced negotiation as of late 2025, but it was designed as a workaround within InvestEU's regulatory constraints rather than as a purpose-built instrument (European Investment Fund, 2024). SME engagement remains particularly challenging: thresholds are too high, information is unclear, and export credit agencies are unevenly developed across member states (Bilal and Klasen, 2025), limiting uptake. In response, several member states and their ECAs have launched complementary national initiatives, including EIFO in Denmark, which illustrate both the demand for such instruments and the gap left by the EU-level architecture. A more integrated approach that connects national ECA capacity to the EU investment framework, and provides a purpose-built export credit instrument in the next MFF rather than a workaround within an existing one, would significantly strengthen European private sector engagement in Ukraine's reconstruction.

2.5. Ukrainian ownership: genuine but incomplete

Ukraine's participation in plan design and Pillar 2 governance is effective. But **ownership is concentrated at the central government level, and even there, it is often fragmented**. The Ministry of Finance, the Ministry of Economy, and the Ministry of Development (the main counterparts on Pillar 2) have different relationships with the presidential office, different levels of seniority, and their own constituencies. A whole-of-government approach does not come easily.

Below the central level, ownership is thin. Decentralisation reforms, one of Ukraine's most impressive pre-war achievements, are on hold under martial law.

Local governments have lost revenue, seen their capacities eroded, and in many cases operate under military administration. This threatens to reduce local ownership of reconstruction and risks re-centralising decision-making in ways that undermine one of Ukraine's most important institutional reforms.

The public investment management (PIM) reform, central to the Ukraine Plan and a benchmark for IMF programme support, illustrates this challenge with particular clarity. The reform is ambitious in design: it aims to connect strategic planning with medium-term budgeting at all levels of government, creating a Single Project Pipeline (SPP) through which both central and local investment priorities are registered, assessed, and aligned with available funding. In principle, locally led projects that enter the local SPP can access financing under national sectoral programmes, giving municipalities a route into the broader investment framework. In practice, the system's reach has been limited so far. Local loan capacity is low; the State Fund for Regional Development, which is the mechanism intended to channel reconstruction resources directly to municipalities, has been largely dormant since the start of the war. Local authorities are expected to develop their own investment plans and project pipelines, but their capacity to do so varies enormously across Ukraine's 1,469 municipalities, and the technical support available, from EIB's JASPERS programme and the World Bank (Karaki et al. 2025), has not yet reached those with the weakest capacity. Whether municipalities will manage to develop credible local SPPs in time for the 2026 budget cycle is uncertain. The PIM reform is the right architecture, but without functioning decentralisation and sustained capacity-building at the sub-national level, it risks becoming another framework that operates well at the centre while leaving local actors behind.

The case for local ownership is ultimately not just a governance argument; it is an argument about what kind of Ukraine the reconstruction is meant to produce. But it must be made with eyes open about the wartime constraints.

2.6. Frontloading as a structural risk: the 2026–27 financing cliff

The Facility was deliberately front-loaded, which is a conscious design choice to provide immediate fiscal support at a moment of acute need. By the end of 2025, nearly 70% of the Plan's available funding for 2024–2027 under Pillar 1 had been disbursed (European Commission, 2026c). This left limited resources for 2026–27, creating a structural financing gap before any successor instrument under the next MFF could become operational. The G7 Extraordinary Revenue Acceleration (ERA) loans, backed by profits from frozen Russian assets, reached the end of their operational phase at end-2025 (G7, 2024). Ukraine's public debt

reached approximately 110.5% of GDP in 2025 (National Bank of Ukraine, 2025), up from 48.9% before the full-scale invasion (IMF, 2025a), with IMF projections indicating a further rise to over 120% of GDP in 2026 under the current financing trajectory (IMF, 2025b). **The combination of front-loading, ERA expiry, and mounting debt made the 2026–27 transition period the most urgent near-term risk identified during the research**.

That risk has since been substantially addressed in design, though not yet in delivery. In April 2026, the **European Council formally adopted a €90 billion Ukraine Support Loan for 2026–2027** (Council, 2025b, 2025d, and 2026b), financed through EU borrowing backed by budget headroom and advanced under enhanced cooperation with 24 member states - Czechia, Hungary, and Slovakia opting out of financial obligations (European Council, 2025b). Of the €45 billion allocated for 2026, €16.7 billion is earmarked for budget support, split equally between the Ukraine Facility and macro-financial assistance, and €28.3 billion for defence procurement (Council, 2025b). Repayment by Ukraine is deferred until Russia pays war reparations, which represents a structural departure from the loan-heavy model of the current Facility that partially addresses Ukraine's debt sustainability concerns.

As of mid-April 2026, however, the first disbursement has been delayed from Q2 to the second half of 2026. The unanimity constraints of Council decision-making, and the procedural leverage they afford individual member states, represent a systemic risk for any large-scale EU external financing instrument, and one that the architecture of the Ukraine Reserve and the Global Europe Instrument will need to address explicitly.

The broader question of new funding sources remains open and will become more pressing as reconstruction scales up. The frozen Russian sovereign assets held in the EU, over €200 billion (European Parliament Research Service, 2025b), represent the most significant untapped potential source. Their use is legally contentious under international law and politically contested among member states: some have developed domestic legal frameworks, while others, including France, Germany, and Belgium, remain cautious at EU level. European Commission President von der Leyen's 2025 State of the European Union address announced a new instrument backed by frozen assets and future reparations (European Commission, 2025c and 2025f), signalling political movement. But the concrete legal and financial architecture of such an instrument remains to be defined. Until it is, the gap between Ukraine's reconstruction financing needs, estimated at $588 billion over a decade (World Bank et al., 2026), and the instruments available to meet them will remain significant.

Conclusion

The Ukraine Facility demonstrated that the EU can act at speed, at scale, and with strategic intent. Against the backdrop of the largest war in Europe since 1945 and a structurally fractious decision-making system, it mobilised €50 billion, maintained conditionality credibility, and built the foundations of a reform-linked financing relationship with a country at war. That is a genuine institutional achievement, which has since been extended by the €90 billion Ukraine Support Loan for 2026–27. The EU has shown it can find resources and political will at the scale the moment demands.

What it has not yet shown is whether it can manage the relationship with Ukraine with the candour and coherence that a sustained partnership and accession to the EU require. Two tensions in particular will define the Facility's final phase. The first is the conditionality-ownership balance: the partial fourth tranche was the right call, but how the EU calibrates reform demands against genuine wartime capacity constraints, and how it communicates that calibration as a partner rather than a creditor, remains unresolved. The EU has inherited the 'critical friend' function the United States once exercised more directly, without yet having developed the institutional voice to exercise it credibly.

The second is the governance asymmetry between the Commission and member states. Operational primacy was a deliberate and partly justified design choice; the friction it has generated is nonetheless real. RESUA has struggled to move beyond a procedural role; information flows between Brussels, Kyiv, and capitals remain patchy; and the underlying tension, between a Commission's exclusive Kyiv relationship considered as operationally necessary, and MS that see untapped political potential being left on the table, has not been worked through yet. It requires investment from both sides before the MFF negotiations crystallise it into the next instrument.

The Facility matters beyond Ukraine. It is the most significant attempt the EU has made to act as a strategic external actor at scale, and how it performs in its remaining two years will shape the EU's self-understanding as a geopolitical actor well beyond this context. Getting the final phase right, i.e. on conditionality, governance, and the transition to the Ukraine Reserve, is not only a question about Ukraine. It is a question about whether the EU is willing to act as a whole, putting collective strategic interest ahead of the institutional and national dynamics that have kept it focused on the instrument and the means, when what

Ukraine also needs, and what the EU also needs to demonstrate, is a long-term strategic partnership.

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