

How to Maintain International Unity on Ukraine (Part II)

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Summary

This piece is the second part to our analysis published in early April on what it would take to maintain international unity on Ukraine. In the [first analysis](#), we noted the large number of countries that abstained from or voted against the resolution suspending Russia's membership in the United Nations (UN) Human Rights Council, including nine out of the ten most populous countries in the world.¹ We identified four reasons why many countries in the Global South are concerned about the West's approach to Ukraine: their public opinion, which in some countries trends against NATO; anger over double standards; the adverse impact of the war socially and economically; and what is viewed as an over-domineering process of lobbying for support.

Here we focus on what the pro-Ukraine coalition could do to deal with these concerns and in the process restore trust that global interests and perspectives are being addressed. There is a need for a change in the narrative and in diplomatic action to demonstrate that the Western concern for the rule of law and accountability for human rights abuses that has been voiced so strongly for Ukraine applies equally to crises in the rest of the world—a **renewed global commitment brought about through realization of the importance of international law and human rights norms, not an exclusive push against one country**. These narrative, normative aspects are important. The thrust of this piece, however, is that they should **also be underpinned by practical financing measures to provide equitable assistance to the rest of the world to recover from COVID-19 and cushion the economic and social shocks of the Ukraine war**.

We describe five measures that the pro-Ukraine Western alliance could take to facilitate access to finance for recovery to the rest of the world, with little impact on their own budgets; alongside ways to finance assistance to Ukraine itself that would minimize the diversion of resources from other countries. Some of the measures discussed are somewhat technical, but the thrust of the argument is political, not developmental. The Global South want to see the North follow through on promised collective action, after two years of disappointment over the global COVID-19 response—including both vaccine nationalism and highly inequitable access to financing—and it will be disastrous in political terms if they see resources being granted to Ukraine that have been withheld from other countries.

If Western political leadership want to continue to rally support from a major part of the UN membership in the face of the Ukraine crisis, it will help if they can grapple with unblocking some of these financing questions, to date dominated by ministries of finance and central banks. It is a crucial step to restore trust. The remainder of this analysis describes practical pathways to realize this goal.

¹ Analysis by the secretariat of The Elders, unpublished.

Less moralizing, more tangible assistance for the global spillover effects of the Ukraine crisis. As noted in our last analysis, G77 countries have expressed irritation regarding double standards in the narrative over Ukraine, in particular a lack of acknowledgement that prior actions such as the Iraq occupation were also a breach of international law and dangerous for multilateral norms.

There is a need to avoid the “hierarchy of suffering, conflict, and solidarity” that we referred to in our previous piece: the suffering of the Ukrainian people, and the chord it clearly strikes in many Western populations, should be an entry point to commonalities with other situations of crisis and suffering around the world, rather than pointing to the uniqueness of Ukraine. There are tangible diplomatic actions that could be taken to address this. For example, the April 27 Security Council Arria formula meeting on ensuring accountability for atrocities committed in Ukraine attracted a record number of ministers and ambassadors making statements. It would not be too much of a lift to broaden the narrative at such events, pointing to other conflicts around the world for which accountability has been lacking, such as in the Palestinian territories. This is an opportunity to affirm common standards of humanity and human rights at the UN.

The view that there are double standards is exacerbated by rapid financial aid to Ukraine coupled with lagging economic and social cooperation with the rest of the world. Developing countries already suffered from the failure of the multilateral system, and the West, to facilitate solutions to the twin global crises of vaccine and COVID-19 recovery finance access over the last two years. There was the failure of COVAX, with vaccine nationalism driving purchases of doses and [under a third](#) of the USD \$4.5 billion doses pledged delivered to date. This has resulted in the [vaccine rate](#) being more than four times higher in high-income countries (72.1 percent) than in low-income countries (17.4 percent). Then we witnessed the [contrast of financing for recovery](#), with developed countries spending almost 20 percent of GDP on stimulus and social protection, while emerging markets and low-income countries without the fiscal space could not spend more than 6 percent and 2.5 percent of GDP respectively. The spiraling debt problems in the global south due to COVID-19, are now being exacerbated by the war and the effect of sanctions: the proportion of developing countries in debt distress or at high risk has [doubled](#) since 2015, to 60 percent.

Table 1	
Food prices <i>(via Food and Agriculture Organization at the UN)</i>	+20 percent in 2022 +60 percent since end of 2019 +12.6 percent Feb-Mar 2022
Energy prices <i>(via the World Bank)</i>	+58 percent in 2022
Gasoline prices <i>(via Trading Economics)</i>	+60 percent in 2022
Fertilizer prices <i>(via YCharts)</i>	+23 percent in 2022
Soybean oil <i>(via Macro Trends)</i>	+50 percent in 2022
Palm oil <i>(via Trading Economics)</i>	+50 percent in 2022
Sunflower oil <i>(via Global Economy)</i>	+67 percent in 2022

The primary vector for most developing countries of spillover of the Ukraine war is from price rises (see Table 1). Secondary vectors are through trade, growth, and (for some countries) remittances. All in all, the post-COVID, post-Ukraine picture for most developing countries piles crisis on top of crisis. It reverses poverty reduction and progress made on the Sustainable Development Goals, and it risks sparking unrest.

The past ten weeks have seen considerable rhetorical commitment to the need to protect the rest of the world from the economic and social effects of the Ukraine war and sanctions in order to maintain international unity. On March 24, the [G7 leaders agreed](#) to use “all instruments and financing mechanisms” and to involve the “relevant international institutions” to ensure food security.

Yet the IMF–World Bank Spring Meetings in April 2022 were polarized by geopolitical issues, and [could not agree](#) a statement at the International Monetary and Financial Committee, as Western ministers [staged a walk-out at the G20](#), similarly paralyzing that body. At present, the G7 is the only global economic body of member states that looks capable of taking decisions, which is regrettable since its membership is so one-sided that its decisions are unlikely to address global economic risks equitably with [Ukrainian financial needs](#) and stability in developed country markets. The G7 statement at the IMF–World Bank Spring meetings [pledged](#) USD \$24 billion for Ukraine but nothing tangible for developing countries.

What is actually needed?

The following five measures—also discussed in our [recent commentary in Barron's](#)—can help to demonstrate the West's recognition of and solidarity with countries that are struggling in the Global South.

- In financing, the first action that needs to be taken is to use World Bank and IMF existing commitments, including the accelerated IDA20 provisions. But these were already facing excess demand from COVID-19: they were not intended to meet the extra shock of the Ukraine war. One short-term solution that has been floated, including most recently by senior US officials, is the expansion of Multilateral Development Bank headroom by relaxing their AAA rating to AA+. Analysts [estimate](#) that this would release an additional USD [\\$0.5](#) to [\\$1.3](#) trillion with only 0.15 percent in additional borrowing costs.
- Another mechanism designed to cushion the effect of COVID-19 but not yet realized is the reallocation of Special Drawing Rights (SDRs), which were agreed in the amount of USD \$650 billion in August 2021. At the time they were approved, it was expected that the developed country SDRs (approximately USD \$360 billion of the total, with USD \$275 billion to emerging and developing countries and USD \$21 billion to low-income countries) would be reallocated to developing countries. Rising reserves in developed countries over the COVID-19 period² meant that they did not need these assets. Yet reticence from developed country central banks to agree a procedure for this reallocation has held up action for nine months. To make the SDR issue useful, developed country governments need to approve their recycling, beyond the IMF trust funds available and [onwards to the multilateral development banks](#), including regional development banks (see analysis of the politics of this process, below).
- The mounting debt crisis also requires more serious investment of political attention. This may include an extension of the debt service suspension initiative: it should also [involve](#) consideration of the fundamentals that have prevented progress—or have been an excuse to prevent progress—in the period since the G20 Common Framework was agreed. Low-income countries are scheduled to pay more than USD \$50 billion in debt-servicing payments this year alone. Progress on debt, given changes in its composition over the last two decades, will need to include the liabilities of the private sector and China (the case of Zambia is encouraging on the latter issue).
- A successful plan to alleviate the one-two punch of the pandemic and conflict in Ukraine on developing countries could also include action to combat illicit financial flows. Although stemming the tide of such flows has long been a priority of the multilateral system, progress has been slow. In 2015 African countries lost an estimated USD [\\$50 billion](#) per year to illicit financial flows, and by 2020 the UN has put that figure at USD [\\$88.6 billion](#). Yet the pandemic has galvanized public opinion in favor of addressing these flows, and the seizure of the assets of Russian oligarchs has proven that swift action is possible when political will is present.
- Some measures can be taken without the need for additional financing. Release of existing [food](#) and [energy](#) stockpiles can support countries experiencing shortages. There is an opportunity for voluntary coordination to prevent further export bans on food, which now affect at least [17 percent](#) of all traded calories globally. As we describe in our piece in [Barron's](#), SDRs and non-financial mechanisms can be

² Forthcoming publication from the Center for Global Development.

agreed before the annual meetings of the World Bank and the IMF in the Fall. The reallocation of SDRs would generate at least USD \$300 billion even if not used to leverage greater private capital (there is doubt about what SDRs have been recycled bilaterally, but an upper estimate would be USD \$35–45 billion, leaving considerably more than USD \$300 billion still to recycle). Completing the SDR reallocation would require some political lifting, but this is not insuperable. Opposition from the European Central Bank has been a significant block to making progress, apparently based on a conservative legal interpretation of the constraints to maintaining SDRs as a reserve asset. European members should engage with the European Central Bank to query the real need for this constraint and provide other options (developed country central banks always have the option of keeping their SDRs and releasing an equivalent amount from other reserves for reallocation, including through the IMF).

Box 1: The politics of central bank reserves and SDRs

The use of central bank reserves (of which SDRs form part) is governed by national legislation and is also informed by guidelines issued by the IMF.

The [IMF guidelines](#) state five purposes for the use of reserves. Point five is “emergency situations” which suggests that reserves can be used for “a rainy day,” in everyday parlance, or can be drawn on by fiscal authorities to support emergency expenditures.

A block against the use of reserves at the present juncture arises in part from reasonable caution: protecting the great efforts that have been made over the last thirty years to preserve central bank independence and ensure that central banks cannot be “raided” by current political parties in power to fill their budget deficits. This argument is entirely valid: political parties in power, whether in high-, middle- or low-income countries, indeed do have the tendency to prioritize short-term sources of revenue at the expense of longer-term stability.

However, there are situations in which the macroeconomic stability of countries (or in the case of Europe, of regions) will be affected if the central bank does not agree to spend down some reserves for fiscal purposes. This is the idea of the last purpose of reserves, the emergency/rainy day provision. The argument now is that the rainy day has surely come: the world economy has great risks of entering into a downward spiral, and there is a need to signal geopolitical unity by entering into new financing agreements (as well as protecting economic stability and growth, but this is a lesser argument behind political unity). While this may encumber some otherwise liquid reserves, it could be critical to preventing a new Cold War in which the West has few allies worldwide and needs to rely on costly rearmament alone.

Central banks are concerned over precedent-setting (see Box 1 overleaf) and seem unconvinced of the urgency of action, as well as the ability of multilateral development banks (MDBs) and their counterpart government agencies to channel the funds to the appropriate developmental expenditures. This concern in our view is overplayed (the MDBs have extensive safeguards and fiduciary procedures in place). More importantly, it misses the point: developed countries want the SDRs to be reallocated, and the purpose is fundamentally about

buttressing political unity by providing desperately needed relief. To the extent that it is a real concern, delivery benchmarks for release of recycled SDRs could be set.

Ideally, these and other efforts should be undertaken in a coordinated fashion, including with the UN's new [Global Crisis Response Group on Food, Energy, and Finance](#). This would be particularly helpful to ensure effective support to the most fragile and lowest capacity countries, including those under sanctions such as Afghanistan, where the UN can play a role in reaching the population.

Tangible aid for the Ukrainians—but not at the expense of the rest of the world

Estimates of the recovery and reconstruction costs for Ukraine still vary widely, as is normal given that war is on-going, infrastructure is still being destroyed, people displaced, and livelihoods lost. But we can make some preliminary estimates of scale: the Ukrainian authorities have released estimates stating that damage and loss to date totaled USD [\\$270 billion](#) dollars ([USD \\$565 billion](#) in one press report), and needs for recurrent financing for the operations of government (which cannot now be financed due to lack of taxes), at USD \$5 billion per month. The IMF and the World Bank confirmed that the latter estimates were reasonable. Other estimates are simply "[in the hundreds of billions](#)." These numbers are huge. As a comparison, total costs of the global vaccination plan (which were not realized) were estimated by the IMF to be [USD \\$50 billion](#).

Where is this money going to be found? Here are three ideas for where to find it, and three ideas for where not to.

Where to find it:

- **A compensation process.** From a justice perspective, it would make sense to have Russia, as the aggressor, pay compensation for damage caused to Ukraine: the Ukrainians themselves and/or Western taxpayers should not be asked to pay for the full cost of reconstruction. In the aftermath of the occupation of Kuwait by Iraq, a [UN Compensation Commission](#) (UNCC) was established in 1991 to help adjudicate damage and loss claims, including loss of life and humanitarian claims as well as business losses. The [commission allocated USD \\$52 billion, and awards realized were financed by an agreed percentage of Iraq's oil revenues](#). The problem is that the UNCC for Iraq was established by the Security Council (Iraq accepted liability): the Russian Federation clearly will not and [other ways](#) would need to be found to put this in place. Looking at the UNCC–Iraq experience, other challenges would need to be addressed. While it was intended as a compensation mechanism for the victims, it was critiqued for being a punishment indirectly meted out on the population of Iraq (drawing on 30 percent of Iraq's oil exports in its first decade).
- **An increase in MDB headroom.** The relaxation of the AAA rating of the World Bank described above would provide additional space for reconstruction funding of Ukraine. The World Bank has already announced USD \$3 billion in assistance. With current rules, however, amounts for Ukraine will compete with demand from the rest of the world, still experiencing the economic and social shock of the COVID-19 pandemic. The relaxation of the AAA credit rating to AA+ would generate funds that could be used for both Ukraine and other middle-income countries.
- **Channeling individual contributions, remittances, and diaspora bonds.** The Ukrainian war has already shown that many people in developed countries around the world are prepared to make

contributions, which can be channeled into reconstruction needs; regrettably this is not the case for many other countries in crisis. [Diaspora bonds](#) are [an innovative way of raising finance](#) that uses the strength of the links of diaspora communities to their origin country. They have been used by [Nigeria](#), [Ethiopia](#), [India](#), and [Israel](#) amongst others. Remittances are already a source of support to suffering Ukrainians inside the country and to refugees: there are a number of ideas for matching schemes that could help offer platforms for diaspora communities to contribute to reconstruction too through these mechanisms.

Where not to find it:

- **Recycling SDRs.** The Ukrainian authorities [have called](#) for countries to use their August 2017 SDR allocation to finance reconstruction, and the IMF announced at the Spring Meetings the establishment of a [Ukraine facility](#), accepting amongst other funding sources recycled SDRs. This is a dangerous route. Such a move would be seen as an immense breach of trust by the developing world: the August 2021 SDR issue was made on an argument about supporting the most vulnerable countries in their COVID-19 recovery, and for them to now be diverted to Ukraine would be seen as a betrayal—especially since, as mentioned above, the political will has not coalesced for releasing them to those in the Global South desperately needing these resources.
- **Too much diversion of official development assistance (ODA).** During the 2015–2016 European refugee crisis, donors used USD [\\$15.4 billion](#) of ODA on domestic refugee costs, and a similar dynamic appears to be emerging today. Some donors have been fighting valiant internal battles to preserve aid budgets and make new commitments to crises in other parts of the world and deserve credit for this given that public opinion in many Western countries is less and less supportive of development aid. In aggregate, however, there is an immediate and highly probable risk that aid to regions outside Europe will be reduced in 2022 and 2023. There is a measure in which ODA will be inevitably reallocated to Ukraine, and this is normal as it is with other crises that arise during the course of a year: but this should be proportionate to the needs of other crises.
- **Seizing reserves.** There are also [debates underway](#) about whether the West should seize Russia's foreign reserves and use these to aid Ukraine (the US, EU, and Japan have already barred Russia's central bank from tapping the roughly half of Russian reserves held overseas, but have not yet liquidated them). While the idea has popular appeal as a stand in for reparations, it also raises thorny policy issues: reference the condemnation of the US' recent freezing of Afghan reserves in US banks as possible compensation for 9/11 victims, as "[stealing](#)" from the Afghan people. More pragmatically, seizing reserves would threaten monetary stability worldwide, in opening possible actions on reserves of other countries.

Conclusion: the nexus in practice at a particularly tense moment

There is a real risk of rise in tensions and division into political blocs, à la Cold War, if the concerns of the South and North do not recognize the very different underlying patterns in their interests and domestic politics and the challenge for multilateralism (and need for compromise) that these present.

In simple terms, we have a major political disconnect in the expectations for international and multilateral action. Western populations will prioritize aid to Ukraine over other forms of aid at present and expect the UN to be tough on Russia. Southern populations expect support for their own recovery from the suffering of the last two

years, and an effort to uphold international norms on other conflicts and human suffering (that are closer to them) similar to those that have been applied to Ukraine.

Some of the tools and solutions for this disconnect are within the remit of foreign ministries, or at least within their mandate to argue for within government. In particular, we think that the push to emphasize international rule of law and accountability should constitute a “leveling up,” in which many situations worldwide suffering large-scale human rights abuse and conflict should benefit, not only Ukraine. The UN, which is supposed to follow a human rights–based approach, cannot do so selectively. Other levers, related to practical financing for recovery and to cushion against price shocks, are in the hands of ministries of finance and central banks. Here it is important that the centers of government engage in these normally technical issues—which have now become eminently political. **It is possible to find creative solutions and deliver progress in these areas, but there needs a political push from the center—which in turn needs to be convinced of the importance of such solutions and the pitfalls of not facilitating them.**

There is a real risk of a scenario as follows—scarce funds will flow away from developing countries to Europe and Ukraine; the narrative in the West will harden into “you are with us or against us.” The Russian Federation will seek to punish countries that have not supported it diplomatically in the multilateral system (e.g., through peacekeeping mandates and UN budget discussions), and the West will seek to punish countries that have not supported Ukraine in the same arena through cutting of development aid.

Such a scenario would prove a serious geopolitical challenge, cause multilateral paralysis, create immense grievance in the developing world, have global spillovers, and prevent climate change progress amongst many other effects. Everyone loses. This prospect requires urgent action if we are to maintain unity at this delicate moment.

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