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Laying the Groundwork for Ukraine's Recovery and Reconstruction

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Overshadowed by the ongoing Russian invasion, the future of Ukraine's post-war reconstruction is already being decided. There are many issues to be resolved even before the war is over; and the sooner we prepare for Ukraine's recovery, the greater the chances of success. The EU and its member states should lead the process, with a special focus on the security environment, proper institutional architecture and sufficient capacity to implement the recovery plan, as well as leveraging frozen Russian assets to raise additional funds for Ukraine's reconstruction.

State of Play

The Russian invasion has inflicted devastating damage on Ukraine. Preliminary estimates are that the country's gross domestic product (GDP) dropped by more than 30% in 2022,¹ in the biggest economic downturn since Ukraine's independence. Direct infrastructure losses alone have been assessed at almost \$140 billion;² not to mention indirect financial losses, which stand at hundreds of billions more. Rebuilding is far beyond Ukraine's own economic capacity. Total reconstruction and recovery needs already exceeded \$350bn in June 2022,³ even before Russia resorted to massive missile strikes on Ukrainian civilian infrastructure in late 2022. This would be equivalent to a staggering 150% of Ukraine's pre-war GDP. A coordinated international effort is therefore required to rebuild post-war Ukraine on a scale that would represent the largest undertaking of its kind since the Marshall Plan.

The Ukrainian government presented its National Recovery Plan outlining the priorities for and principles of post-war reconstruction at an international conference in Lugano in June 2022. Representatives of around 40 countries, as well as the European Commission, the European Investment Bank and the European Bank for Reconstruction and Development endorsed the

1 Source: Ministry of Economy of Ukraine.

2 Source: Kyiv School of Economics, "Russia will pay" project.

3 Source: World Bank.

plan in principle and welcomed the idea of establishing an international coordination platform for Ukraine's recovery. However, neither the Lugano conference nor a subsequent meeting in Berlin in October 2022 delivered tangible outcomes, and it was not until January 2023 that the G7 eventually took the lead by establishing a special donor coordination platform. Even so, little has been achieved in terms of concrete financial pledges from donor countries.

While the war is still ongoing, the absolute priority remains to provide military support to Ukraine, but preparations for the country's reconstruction should not be put on hold. If the often-invoked Marshall Plan has taught us anything, it is that its belated enactment exacerbated the socio-economic turbulence in post-war Europe. The international community must not risk a repeat of such a scenario in Ukraine. The right time to plan for Ukraine's recovery is now, so that the reconstruction can commence the very next day after Russian hostilities end.

There are at least five steps that the EU and its member states could and should take in the short term, before the war is over. These are considered briefly below.

Recommendations

➤ **Beef up Ukraine's security**

The road to Ukraine's recovery begins today by minimising the damage caused by Russia to the people, economy and infrastructure of Ukraine. The more that is saved from the war, the brighter will be the prospects for future successful reconstruction. Strengthening Ukraine's air defence capabilities stands out as the most immediate priority as these provide protection against Russian missile strikes on civilian targets and would enable the rebuilding of emergency infrastructure even before hostilities end. Mine clearance in the areas liberated from the Russian army, for which the EU member states should provide both training and the necessary equipment, stands next in line to facilitate at least the partial resumption of socio-economic life as soon as possible.

Finally, discussions on future security guarantees for Ukraine and the prospects for its NATO membership should be launched early on with the engagement of the major EU member states. Without a viable security umbrella, any broader Ukrainian recovery efforts will quickly prove futile as private capital would be unlikely to get involved on a long-term, sustainable basis.

➤ **Agree on the institutional architecture for Ukraine's reconstruction**

The reconstruction of Ukraine will absorb financial resources that no international institution or donor country would be able to provide alone. Public and private funds from a variety of sources will need to be deployed, which calls for coordination among the largest contributors. Setting up a single, centralized international body for Ukraine's reconstruction might seem tempting, but is unlikely since the major international financial institutions follow different rules of engagement. Ultimately, it might also prove counterproductive by being insufficiently flexible. (The current EU macro-financial assistance framework is a case in point here.) Instead, the Ramstein coordination group on defence support for Ukraine should serve as an example, allowing a division of labour within a broader coalition of donors. There will be a role to play for all the major actors – the International Monetary Fund providing an emergency lifeline, the World Bank mobilising external financing through its Ukraine trust funds, and the use of public funds from donor countries.

There are a number of reasons why the EU should take the lead in such a broad coalition, not least because linking Ukraine's reconstruction to its European integration path requires that, while Ukraine must retain full ownership of its reconstruction and recovery plan, basic conditionality principles are shaped in line with the EU reform agenda. To this end, the member states should already be working to agree the EU's internal framework for Ukraine's reconstruction, which would also be open to external contributions, and subsequently call for an international alliance for Ukraine's recovery – probably centred around the existing G7 donor coordination platform. The EU should build on the knowledge and experience gained from nearly a decade of work by the European Commission's Support Group for Ukraine, which should now be expanded and turned into a special EU Taskforce for Ukraine's Reconstruction – with Head of the Group appointed as the EU Special Representative for Ukraine's Recovery and tasked with coordinating efforts with other donors.

➤ **Leverage frozen Russian assets to raise funds for Ukraine's reconstruction**

There is both a moral and a financial imperative behind the idea that Russia should ultimately bear the burden of Ukraine's reconstruction and compensate the victims of its crimes. While confiscation of the Russian Central Bank reserves frozen across the EU member states, let alone their subsequent use for the rebuilding of Ukraine, might prove legally and politically challenging, the EU should nonetheless explore this further, at least as a potential bargaining chip over future Russian reparations to Ukraine. In the short term, the member states should proceed with the proposal tabled by the Commission in November 2022 to temporarily invest the frozen Russian public funds with a view to raising additional resources for Ukraine's recovery. To be truly effective, both options require careful legal evaluation and close coordination with other G7 partners. They could also be assigned to a special EU Taskforce on Ukraine's Reconstruction.

➤ **Prepare in advance for the launch of Ukraine's recovery plan**

From day one, Ukraine's overall recovery efforts will not be confined to its national borders, but extend far beyond them. To acquire much needed hard currency, priority will be given to supporting export-oriented economic sectors, thereby bringing to the fore the imperative of developing new trade routes with the world markets. Given the question mark hanging over the possibility of fully restoring shipping through the Black Sea, a much larger proportion of Ukraine's foreign trade will now be passing through the country's Western land border, putting the currently insufficient transport infrastructure in Central Europe under strain. The EU should already be starting to plan how to accommodate the growing flow of goods from Ukraine, primarily en route to the Baltic Sea ports. This will require expansion of the transport infrastructure on EU territory and the removal of physical and administrative bottlenecks on the EU's external border with Ukraine, through provision of new border crossings, joint border controls and common procedures among other things.

The EU would also be well advised to devise a set of risk mitigation tools for businesses willing to engage with Ukraine's future reconstruction, such as political risk insurance and guarantees for private capital, or insurance policies for logistics companies and posted workers. This would help to encourage investors from the EU member states to get on board with Ukraine's recovery early on, optimally during the planning of reconstruction.

➤ **Help Ukraine build up its own capacity to recover**

The sheer scale of future reconstruction will require reinforcement of Ukraine's capacity to plan, coordinate and implement an unprecedentedly wide range of projects and measures. Unlike many other war-torn countries, Ukraine has managed to avoid state collapse and its authorities retained administrative capacity over most of the country's territory. Leveraging this advantage, the EU should initiate, without undue delay, a set of actions aimed at boosting Ukraine's administrative capacity and building the project management skills and capabilities necessary to effectively handle recovery efforts, especially at the local government level.

For its part, Ukraine should already be working, with EU assistance, on legislative changes to facilitate future reconstruction – such as on establishing business entities and the employment of staff, their status and insurance issues, asset and property protection and the setting up of public-private partnerships, among other things – to create a transparent playing field for private capital and to attract foreign investment. For the same reasons, work should be undertaken to adapt the country's construction standards to the new safety environment, which entails a permanent threat of Russian attack.



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