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# The Reconstruction Process in Ukraine

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*In order to mitigate the suffering of the Ukrainian people, it is imperative that the Ukrainian authorities and international partners put in place the main components of a reconstruction process as soon as possible: the governance architecture, a recovery plan, a financing scheme and a monitoring mechanism.*

*Eleven months after the start of Russia's full-scale invasion, Ukraine is facing disastrous social and economic consequences: about 15 million Ukrainians have had to leave their homes to relocate to the western part of the country (8 million) or the territory of an EU member state (7 million); Ukraine's gross domestic product fell by 32% in 2022 and 30–40% of its energy and transport infrastructure has been destroyed.*

*The Ukrainian authorities and their international partners have been exchanging views on the best way to handle the reconstruction process for many months. There were international conferences in Lugano in June, in Berlin in October and in Paris in December. The Ukrainian Government presented its National Recovery Programme in Lugano and set up a Recovery Fund. On the basis of the lessons learned in other post-conflict situations, such as the Balkans; the specificities of the damage inflicted by Russia's aggression; and the current stage of Ukraine's political and economic transition, the main features of the required recovery process are summarised below.*

1. *Governance body:* a Reconstruction Coordination Platform (RCP) chaired by the Government of Ukraine is set up in cooperation with a number of Ukraine's partners

The RCP should be chaired by the Government of Ukraine with representatives of the relevant national Ukraine ministries, the regional administrations, the business community and civil society, as well as major donors such as the G7, the European Union and the international financial institutions (IFIs). The relevant Verkhovna Rada Committees should be invited to join the body as observers. This governance architecture should ensure full Ukrainian ownership of the reconstruction process. The Ukrainian Government and G7 members must make it clear that reconstruction funding will not be at the expense of security/military assistance. The clear involvement of economic actors, regional representatives and civil society will be of prime importance, in particular in the selection and implementation of specific projects.

2. The World Bank and the European Commission finalise a *Damage Assessment* to be endorsed by the RCP and presented to all potential donors at a pledging conference

3. On the basis of the *Damage Assessment*, the RCP assisted by an expert secretariat draws up a *Recovery Plan* based on three pillars

- ❖ *Reconstruction of destroyed/ damaged housing and administrative buildings, civilian infrastructure (water and power supply, healthcare facilities and schools) and production facilities:* The 15 million IDPs and refugees should be given a chance to return home as soon as possible. These reconstruction activities should therefore start immediately, and not wait for a ceasefire or a peace agreement. Restoration of the liberated cities (Izium, Lyman, Kherson) will be necessary even if Russian forces continue to shell them.
- ❖ *Resumption of the modernisation process involving energy diversification and efficiency, new transport routes, reform of public administration and the rule of law, decentralisation, privatisation, new governance of state-owned companies, land reform, a green transition, digital transformation, the removal of regulatory barriers and an improvement in the business environment:* The recovery plan should pursue a “build back better” mantra, which means compliance with modern standards of security, energy efficiency and good governance. Ukraine must refocus on new supply chains and logistics routes.
- ❖ *EU accession and alignment with the EU regulatory and normative environment:* Fast implementation of the Deep and Comprehensive Free Trade Area should allow Ukraine to join the EU single market in the near future. Ukraine’s staged integration into the EU should ensure its early participation in EU policies and institutions/agencies.

4. The RCP immediately sets up a *Monitoring Mechanism* to ensure transparency, accountability and sound financial management

Given its reputation for corruption (opaque decision-making in favour of big business and politically connected companies, and the lack of an independent judiciary), potential sources of funding are worried about pouring large amounts of funds into Ukraine. To counter this threat, the RCP should immediately set up a Monitoring mechanism to ensure transparency, accountability and sound financial management. The digitalised public procurement platform (ProZorro) introduced by the Ukraine Government in recent years would be used in tendering and contracting processes. An experts’ team would monitor the implementation of projects and present regular reports to the RCP. Ex-post evaluation of projects would be carried out by an independent team of experts.

5. The RCP shapes the *strategic orientation*

To this end, the RCP selects the *priority sectors* to focus on in each year and decides on regional sequencing. The focus of Russian destruction on the eastern regions (the Sumy, Kharkiv, Luhansk, Donetsk, Zaporizhzhia and Kherson Oblasts) makes geographic differentiation important. In the first year, the main objective should be to provide an incentive for the 15 million Ukrainians who left their homes (both the internally displaced and refugees) to return to their place of origin. Priority should be given to demining and the removal of unexploded ordnance, reconstruction of the water and electricity infrastructure, and rebuilding housing, medical facilities and schools.

One of the Putin regime’s main objectives in the past eight years has been to deny Ukrainian national identity: hence the systematic looting and destruction of Ukrainian cultural heritage in occupied areas such as Kherson and Mariupol. Its distinct cultural identity is essential to Ukraine’s survival. Restoration and preservation of this cultural heritage should be an important component of the recovery plan. At the same time, social inclusion and gender equality should be integrated into all sectoral objectives.

6. The RCP decides on the *division of labour* between donors

Strong donor coordination is essential. The IFIs should focus on bankable projects while the EU and UN agencies oversee the rebuilding of critical infrastructure, and the development of human capital, healthcare facilities and schools. The RCP must ensure that the major donors align their *conditionality principles*. There must be the same conditions for the disbursement of funds in any given sector.

7. On the basis of the priority sectors selected by the RCP each year, Ukraine's regional leaders, civil society and business representatives play a decisive role in the *selection of specific projects* to be funded

8. The *Donbas region* has been torn apart by war since 2014 and needs a specific approach

The devastation of the social and economic infrastructure in the Donbas region is far worse than in other regions. The traditional coal mining and steel industries were already in a disastrous condition at the end of 2021. Russian missiles have rained down on the Donbas cities of Mariupol, Sievierodonetsk, Lysychansk, Bakhmut, Kreminna and Avdiyivka for many months, triggering a mass migration of local people. Hence the need for a specific approach to this area to deal with four immediate challenges: (a) the need to move away from some of the traditional industrial production inherited from the Soviet Union; (b) the need to prevent the pollution of underground water due to flooding in coal mines; (c) the need to create mental health services to assist a traumatised population; and (d) the need to overcome deep societal divisions, in particular linked to some local residents' collaboration with the occupiers.

9. The RCP draws up a *communications strategy* aimed at convincing public opinion in western countries that the reconstruction of Ukraine is not a cost but an opportunity

The reconstruction of Ukraine will strengthen western liberal democracies and the European security order through Ukraine's integration into the EU and gradual rapprochement with NATO. It will also provide western companies with substantial contracts, an investment space with a highly educated work force and a market of 40 million consumers.

10. *Funding*: The *frozen reserves* of the Russian Central Bank (\$300 billion) and the assets of Russian politicians/businesspeople (\$30 billion) should be mobilised to finance a large part of the reconstruction process

The cost of reconstruction has been estimated between €500 and €750 billion. Russia must pay reparations for the damage and suffering it has caused. Reconstruction of infrastructure should be financed mainly by grants, and business development by loans. Debt relief and private investment should make a significant contribution. A war risks insurance scheme, tax incentives and strengthened rule of law institutions should restore business confidence and attract foreign capital. In view of its EU candidate status, Ukraine should benefit from pre-accession funds. In addition, a gradual, phased integration process should allow Ukraine access to EU cohesion funds. In parallel with the reconstruction funding, macro-financial assistance is required to keep Ukraine's state apparatus afloat. The European Union is committed to providing €18 billion in 2023. This amount represents 30–40% of the required liquidity to cover running costs.

11. The RCP ensures that *administrative costs* are kept at a reasonable level of 6–8% of operational expenditure.

The RCP reviews the pace of financial commitments and disbursements and the contracts awarded every three months.

## Conclusions

The *key principles* of the reconstruction process should be:

- Full Ukrainian ownership
- Clear rules agreed by the RCP and applied by all donors and implementing actors.
- Rebuild damaged infrastructure and production facilities according to the principle of “build back better”, aimed at promoting a carbon-free and digital economy.
- Ukraine should be a different country at the end of the reconstruction process.
- Constant dialogue among the Government of Ukraine, local and regional authorities, civil society and business representatives on the selection of projects and implementation modalities.
- Fast implementation through clear decision-making procedures and digitalised tendering and contract awarding.
- Transparency in the selection of projects and the awarding of contracts; regular reporting to the RCP by Monitoring and Evaluation Teams.



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