

# Supporting Reconstruction in Ukraine

An overview of the key issues for recovery

## Introduction

Even as the war continues in parts of Ukraine, attention has turned to anticipate planning for reconstruction and recovery. Given the extent of the devastation, there will be a range of severe challenges facing Ukraine and its people, from physical reconstruction and restoring the economy to the return of refugees, supporting those affected by trauma and injury and repairing the social fabric. International experience shows the importance of anticipating issues that can make the difference between successful or failed reconstruction. This brief serves to inform discussion and contribute to identifying options for the key issues around reconstruction in a post-conflict Ukraine.<sup>1</sup>

## Key Takeaways

- **The war in Ukraine has come at a devastating cost.** with millions of Ukrainians displaced, more than \$411 billion in losses and reverberating shocks to global food and oil prices. Supporting the physical, economic and human recovery from the war will be necessary not just to set the foundations of a functioning state in Ukraine but for the stability of the global economy.
- **Any recovery effort must start with a Ukrainian-led vision for reconstruction.** Ukrainians must architect their own vision and national strategy for recovery, understanding how different pathways will affect prospects for the economy, social cohesion and stability. Supporting the development of a Ukrainian-led plan for recovery and using it as a lodestar in the design of reconstruction assistance packages will ensure ownership of the recovery process.
- **A well-coordinated architecture for international assistance with clear objectives and systems for accountability will avoid common reconstruction pitfalls.** Even in a highly developed country like Ukraine, lessons from reconstruction elsewhere have demonstrated how large assistance programs can overload institutions, suppress market-driven solutions, and strain trust between the government and citizens. Understanding the governance environment in Ukraine and developing an architecture of reconstruction assistance built around a Ukrainian vision will support the goals of strong local institutions and self-reliant growth.

- **Effective reconstruction requires strong leadership and communications, well-sequenced plans and clear responsibilities.** Countries at a critical juncture face a series of difficult decisions where government bandwidth is limited, and everything is a priority. Reconstruction in Ukraine will need to leverage the leadership shown by the government throughout the conflict while creating a realistic strategy for recovery, communicating effectively with citizens and setting new institutional arrangements to manage the large influx of foreign assistance.
- **Successful recovery in Ukraine will require significant attention to economic, human, security and social issues.** While the immense physical and economic damages from the war are frequently mentioned, it is important to not ignore the impacts that the conflict has had on human capital, social cohesion and long-term security in Ukraine. Clear strategies and partnerships to address these various needs are needed to ensure a sustainable recovery that builds a more secure and prosperous Ukraine.

## Background

**The war in Ukraine has come at a devastating cost to the country and its people and has reverberating effects on regional and global stability.** As of May 2023, one-third of Ukrainians have been forced to flee their homes, resulting in over eight million recorded refugees across Europe and another five million internally displaced persons — a devastating outflow of Ukraine's most important asset.<sup>2</sup> Ukraine's economy contracted by 35 percent in 2022, with significant damage to the productive capacity of the economy and infrastructure of vital economic importance (i.e., roads, ports and IT systems) and basic service delivery (i.e., schools, hospitals and residential housing).<sup>3</sup>

As of March 2023, the estimated physical damage and losses in Ukraine was estimated to be around \$411 billion.<sup>4</sup> The global ramifications of the conflict are already felt in the rising prices of food and oil as well as in downgraded trade.<sup>5</sup> While rebuilding its productive capacity and reintegrating displaced citizens, Ukraine will also have to manage preexisting social cleavages and advance key governance reforms. If not managed appropriately during recovery and reconstruction, the nexus of infrastructure and asset destruction, mass

1. This brief was originally produced in May 2022 at the request of partners. Figures and statistics have been updated as of May 2023.

2. UNHCR. May 2023. [Ukraine situation Flash Update #47](#).

3. IMF. April 2023. [Regional Economic Outlook: Europe](#).

4. The World Bank, Government of Ukraine and European Commission. March 2023. [Ukraine Rapid Damage and Needs Assessment](#).

5. World Economic Forum. April 2022. [These 3 charts show the impact of war in Ukraine on global trade](#).

migration and potential social breakdown present a significant risk to the basic foundations of a functioning state in Ukraine.

**As local and international stakeholders begin to consider how to support its recovery after the war, it is very important to appreciate that Ukraine is a highly developed country, with advanced capacity in its professional cadres, institutions and society for managing reconstruction.**

Therefore, lessons for reconstruction in Ukraine should be drawn from experiences in post-war Europe reconstruction, recovery after natural disasters in developed countries and social funds within Europe—rather than some of the recent post-war reconstruction cases where institutions and human capital are not as developed. Starting with an appreciation of what capabilities, resources and services already exist in Ukraine rather than looking to bring in capacities from outside will be an important prism.

**International support will be essential for reconstruction in Ukraine, but the sudden influx of large sums of assistance can have adverse effects.**

As of August 2022, international partners had pledged around US\$57 billion—not including military support—to address economic recovery and reconstruction needs in Ukraine.<sup>6</sup> Moving beyond the immediate humanitarian phase of support, various options for international reconstruction funds have been discussed, and Ukraine has established several separate funds to restore the country.<sup>7</sup> Well-managed reconstruction could put Ukraine back on the path to becoming a market-based democracy that sustains the trust of its people. Experience in other countries, however, has shown that large reconstruction assistance programs can overload already strained institutions, incentivize the development of rentier aid systems in the domestic economy, suppress market-driven solutions to reconstruction and self-reliant growth, and further strain trust between the government and citizens. Furthermore, while Ukraine, like much of Eastern Europe, has built strong administrative and human capacity in public institutions, entrenched oligarchic and criminal networks can challenge those institutions. Although Ukraine has made considerable progress in building national systems for accountability, more can be done to strengthen the country's planning, oversight and transparency processes. Strengthening institutions and accountability systems will be central to building closer partnerships with key international actors and maintaining support for reconstruction.<sup>8</sup>

### Key Issues for Reconstruction in Ukraine

Based on its global experience and the Ukrainian context, ISE has identified a set of key issues and principles central

to effective and accountable reconstruction in Ukraine that is responsive to people and re-establishes the foundations for Ukraine's future as a self-reliant economy and prosperous, inclusive democracy. Some key issues for consideration are set out below.

**1) A Ukrainian-led vision for reconstruction, stability and growth.** Experience shows us that it is essential that a collective national vision and strategy guides the reconstruction process. One commonality of successful reconstruction in the Colombian, Marshall Plan and South Korean models was the importance of a nationally led plan, rather than following an internationally imposed plan. Reaching national consensus on a future vision for Ukraine is a crucial first step in setting out plans for reconstruction. Ukrainians must architect their own vision and national strategy, understanding how different pathways will affect prospects for the economy, individual opportunity, social cohesion and stability. Ukraine has already taken steps to set this vision with the release of a draft National Recovery Plan at the July 2022 conference in Lugano.<sup>9</sup>

While leadership will come from the government, and the government will be held accountable for the success or failure of reconstruction, soliciting the engagement of different groups of Ukrainians is key to broader societal support for reconstruction. The establishment of the National Recovery Council was an important first step, and the government can leverage it to further build consensus on a recovery plan with citizens and international partners. Ukrainian authorities may embark on a series of citizen and stakeholder consultations in different regions and municipalities, building on the solidarity that Ukrainians have demonstrated in their national defense and channeling it toward a common roadmap for reconstruction. Townhalls, either virtual or physical, could include Ukrainian diaspora in neighboring states and may attract back people who have left. A consultative phase would help ensure buy-in from multiple quarters and set expectations for shared responsibilities throughout reconstruction.

**2) Appropriate international and regional partnerships, objectives and responsibilities.** With a national vision and overarching strategy set, the Ukrainians will need to continue to marshal support and resources from many quarters, including bilateral development partners, regional and multilateral organizations, academic institutions and private sector partners. Many of these partners have already offered substantial military, financial and technical support for both the current crisis and immediate recovery. The bulk of financing so far has come from the United States, mainly in the form of

6. MackInnon, Amy. May 2022. [Ukraine's Other Front Line. Foreign Policy.](#)

7. The funds that Ukraine initially established to channel finance for reconstruction cover the areas of: (i) Destroyed Property and Infrastructure Restoration; (ii) Economic Recovery and Transformation; (iii) Debt Management; and (iv) the Redemption and Affected Business Support Fund. The President's office more recently set up [United24](#), a crowdsourcing platform with [weekly disbursement reports](#) focused on defense and demining, medical aid and infrastructure reconstruction. United 24 now appears to be the primary platform for channeling finance and will include the Recovery Plan announced by the government at the July 2022 [Ukraine Recovery Conference](#) in Lugano, Switzerland.

8. For example, in 2018, one tranche of EU/IMF assistance provided in the aftermath of Russia's 2014 invasion of Crimea was then subsequently canceled: the EU/IMF determined that the Government of Ukraine failed to meet conditionalities in anti-corruption, governance and transparency in the two previous tranches of assistance.

9. National Recovery Council, Government of Ukraine. July 2022. [Ukraine's National Recovery Plan.](#)

military assistance, but other bilateral donors have committed to more medium-term budget support to close Ukraine's financing gap for public sector salaries and basic service delivery,<sup>10</sup> which the IMF has estimated to be US\$5 billion per month. The World Bank will likely continue to support bilateral budget support with a focus on ensuring continuity of Ukraine's social assistance programming.<sup>11</sup> The IMF and European Commission will be expected to support overall macroeconomic and monetary stability in Ukraine;<sup>12</sup> and other multilateral actors have indicated financing to support specific areas, including the stability of private and state-owned enterprises (IFC and EBRD) as well as key infrastructure (EIB).

Moving forward, it will be critical that Ukrainians determine what inputs are needed from whom, mapping and coordinating these—including through multi-donor trust funds like the Ukraine Solidarity Trust Fund established by the EU<sup>13</sup>—to avoid duplication, inefficiency and misuse of funds. To avoid the capture of finance by oligarchs that has plagued Ukraine in the past, new partnerships for reconstruction should include and set responsibilities for both international and Ukrainian representatives while maintaining close relationships with local anti-corruption institutions and civil society. Furthermore, these partnerships may be linked to longer-term objectives with the European Union, as President Zelenskyy has expressed interest in Ukraine joining the regional bloc. Partnerships and financing strategies tied to the application process would provide an opportunity for Ukraine to bring its domestic laws and policies in line with EU accession standards. Determining how to interact with countries in the region as economic, security and diplomatic partners—and developing partnerships with those goals in mind—will be central to Ukraine's long-term recovery.

**3) Accountable marshalling and channeling of finance for reconstruction.** The goal of international finance for Ukraine's reconstruction should be the development of a peaceful, prosperous and self-reliant Ukraine. Yet, large influxes of international assistance for reconstruction—while critical in early post-crisis periods—can overwhelm existing state institutions responsible for distribution and oversight. Left unchecked, significant wastage of resources can undermine recovery efforts, weaken state institutions and service delivery and promote rent-seeking behavior. Without strong fiscal oversight measures, the adequate allocation, disbursement and control of reconstruction funding could be either bottlenecked or inequitably distributed. At the same time, the safeguards within the system of international assistance, including short-term time horizons and projectized delivery meant to minimize donors' fiduciary risk, can often

bring unpredictability, delays and a parallel bureaucracy that does little to set an accountable fiscal environment. Development partner wariness stemming from Ukraine's historical challenges in dealing with corruption and politically connected firms will no doubt drive tensions. Despite this, strengthening—rather than overwhelming and replacing—Ukrainian institutions will be necessary to enable successful reconstruction. With this aim in mind, the design of conditions on finance for Ukraine's reconstruction, which are to be expected when there are large sums committed by external actors, should be tied to domestic decisions on the recovery roadmap and serious dialogue with local stakeholders. A preventative approach to anti-corruption could help to ward off potential irregularities in reconstruction and help deliver on Ukraine's longer-term vision and overall development.

**4) Effective leadership and communications to build citizen trust and engagement.** Strong leadership and communications can adjust the foundational norms and values that underpin Ukrainian social capital and the relationship between citizens and their government. However, Ukraine's media space and primary channels of citizen communications are dominated by oligarch-controlled clusters that combine TV, news and social media channels. Previously, these platforms have allowed entrenched interests to influence politics and promote their commercial interests. During the conflict, the national leadership team in Ukraine has overcome these challenges, working with and coordinating international support and citizen engagement through strong and consistent communications (leveraging social media in particular). Successes during the conflict bring both an expectation and opportunity for the government to continue building new systems for mutual trust and accountability with citizens during reconstruction that are not captured or undermined by entrenched interests. This requires a consistent, open dialogue between citizens and the government, where citizens know what the government is doing for them and there are multiple platforms to engage with government. Institutionalizing inclusive leadership and communications during recovery will be essential to rebuilding trust and social capital in a post-conflict Ukraine.

**5) Systems to implement reconstruction priorities and responsibilities alongside service delivery.** Decisions on the organizational structures of reconstruction implementation will need to be made, including on whether there will be a central reconstruction body (akin to the Economic Cooperation Administration during the Marshall Plan) and/or local reconstruction bodies for different regions or cities. There is a very strong case for a decentralized approach,

10. The [United States](#) has committed more than US\$54 billion in assistance to Ukraine since March 2022, though the majority of financing has been directed to military and weapons support. The [Group of 7](#) recently committed to the disbursement of around US\$20 billion in loans and grants for budget support.

11. The [World Bank](#) initiated its support in March 2022 with a US\$723 million in "fast-disbursing" budget support, composed of a loan (US\$350 million), guarantees from the Netherlands and Sweden (US\$139 million), grants from other Europeans (US\$134 million) and parallel financing from Japan (US\$100 million).

12. In March 2022, the [IMF](#) deployed a US\$1.4 billion Rapid Financing Instrument for Ukraine to finance the government's spending needs while also stabilizing the economy and reserves by supporting the country's balance of payments. The [European Commission](#) proposed a \$9.5 billion loan in May 2022 under its macro-financial assistance mechanism, which is backed by EU governments guarantees.

13. Shin, Francis. May 2022. [Corruption Could Mean Ukraine Loses a Future Peace](#). Foreign Policy.

especially for municipal reconstruction, whereby relevant decisions and resources are allocated to a city or regional reconstruction authority. Allocation of responsibilities for different types of decisions will need to be made, including between the Ministries of Communities and Territories Development, Ministry of Finance, Ministry of Economy and other central agencies (e.g., the Presidency), and between reconstruction bodies. International experience shows a mixed record on the efficacy of reconstruction agencies. Ensuring that they are staffed with expert Ukrainians rather than an influx of foreigners coming to provide technical expertise will be an early task.

**6) Governance capabilities and competencies for reconstruction.** The conflict has likely devastated human capital not only among the general populace but also within the government, particularly at the municipal level. Optimizing reconstruction strategies and delivery will require ensuring that the right people are in the right positions to lead and manage. At the same time, any government tackling reconstruction challenges faces a support absorption curve, the inverse relationship between a government's ability to absorb aid immediately after crisis and the international community's willingness to pledge and give assistance at that time. Getting the balance right while investing in the capabilities and performance of the public service at the national and local levels will be a critical task as the government delivers both reconstruction and basic services to citizens, as will attracting back skilled Ukrainian public servants and talent in the diaspora.

**7) Systems and policies to address the long-term human impacts of the conflict.** In addition to its physical damages and losses, the conflict in Ukraine has had an immense impact on the country's people and their wellbeing. Over the past months, families have been displaced and separated, people have been traumatized and households have been plunged into poverty and joblessness. More than one-third of Ukrainians have left their homes since the start of the crisis, and—as of September 5, 2022—the UN has reported that 5,718 civilians have been killed and 8,199 injured,<sup>14</sup> although these are likely low estimates. Millions more have been impacted by severe disruptions in the stock and supply of shelter, food, water and medicine, particularly in eastern and southeastern regions of the country. Ukraine will not only need to restart and rebuild health, education and social assistance services available prior to the conflict but also respond to these new challenges. The government and its partners will need to set out investments for new social assistance programming—which might include pensions for veterans and their families, disability assistance and mental health support—to respond to the immense impacts of the war on the Ukrainian people.

**8) A security sector that reflects the post-war reality.** No matter the end state following a resolution to the conflict, Ukraine's security interests and risks are fundamentally

changed. The government will need to maintain a more robust defense sector—in close coordination with allies—whose force posture is geared toward deterrence of Russia. Simultaneously, Ukraine will need to walk a fine line between effective deterrence and aggression to prevent unintended conflict re-escalation. At the same time, the country will need to tackle the long-term impacts of the mobilization of the population for the war effort, particularly the Territorial Defense Forces. A key dynamic of the conflict has been everyday Ukrainians stepping up to defend their homeland. Although this is likely a factor of Ukraine's success thus far in the conflict, following the war, Ukraine will be tasked with demobilizing and re-integrating these groups back into society while also rebuilding the country.

After the end of open conflict, Ukraine will also have to shift security institutions from a wartime mindset to reconstruction and reform. This includes a renewed emphasis on preexisting issues like organized crime, illicit economies and community safety amid an unprecedented influx of arms into the country. At the same time, the massive swell of support for Ukraine's military and its leadership presents a key opportunity for the government to build greater trust in its security institutions, which will be necessary for pursuing its complex post-conflict national security interests while also making the difficult transition back to peacetime normalcy.

**9) A revitalized economy that leverages local assets and mitigates market distortions.** Ukraine's economic recovery—which is critical for both regional and global trade—will be built on the revitalization of regional linkages and rebuilding value chains, particularly for agriculture, but also in construction materials and the service industry. Reconstruction offers a key opportunity to realize efficiency dividends by reorienting legacy infrastructure that was aligned to Soviet markets.

An early focus of reconstruction planning should be on ensuring that Ukraine is an attractive destination for foreign direct investment, which will accelerate the recovery and reduce reliance on partner assistance. Aid and reconstruction instruments and policies should be designed with this in mind—with the ultimate goal of mitigating market distortions and supporting market-driven reconstruction and growth. The country must seek to quickly address the deep structural bottlenecks that were present in the pre-conflict economy—including needed reform of land markets and overly concentrated and anticompetitive market structures—while leveraging the country's many assets that could set it on a path toward the economic status of its European peers. The government and its partners should seize the opportunity to jump-start the economy and upskill domestic market actors by leaning on Ukrainian firms during reconstruction. However, there will be trade-offs between the speed of re-starting the economy and the participation of a broader set of firms. While the contracting of large, established firms may deliver

14. United Nations Office of the High Commissioner for Human Rights. September 2022. [Ukraine: civilian casualty update 5 September 2022.](#)

more quickly on reconstruction needs, this could risk further consolidating a private sector oligarchy and missing the opportunity to grow small- and medium-sized enterprises in a more vibrant and competitive economy. The government will need to set a policy position that balances equitable market development with the necessary speed of recovery while leveraging recent gains in the governance of procurement (e.g., using ProZorro) to ensure the transparency of financial disbursements for reconstruction required by both citizens and international partners.

**10) Social cohesion and the prevention of the fracturing of society.** Even after the end of active conflict, countries must address the reintegration of the displaced, longstanding societal fractures caused by unequal provision of services and the development of a new post-crisis civic identity while also undergoing physical reconstruction. Ukraine has experienced a high degree of social cohesion during the conflict, but ethnic, linguistic and regional divisions had caused severe social cleavages even before the invasion. As a reconstruction phase is contemplated, the government and its partners must consider how to design and implement an inclusive approach to reconstruction and recovery that includes both the active participation of youth and women and the appropriate decentralization of decision-making and resources. Significant platforms for broad inclusion in decision-making and outcomes will be needed to give the Ukrainian people a role and a stake in reconstruction and in the Ukraine of the future. A lack of a sense of progress or participation may risk opening or further exacerbating social cleavages. On the other hand, a shared sense of a common Ukrainian vision, pathway and mutual accountability could help rewrite the social compact in the country as it enters a new era. Attention to Ukrainian arts and culture and the involvement of Ukraine's rich cadre of architects, urban planners and artists, especially in the rebuilding of cities, can contribute to shared ownership and help nurture a common national identity.