

Rebuilding Ukraine: Priorities and Funding for Recovery and Modernization

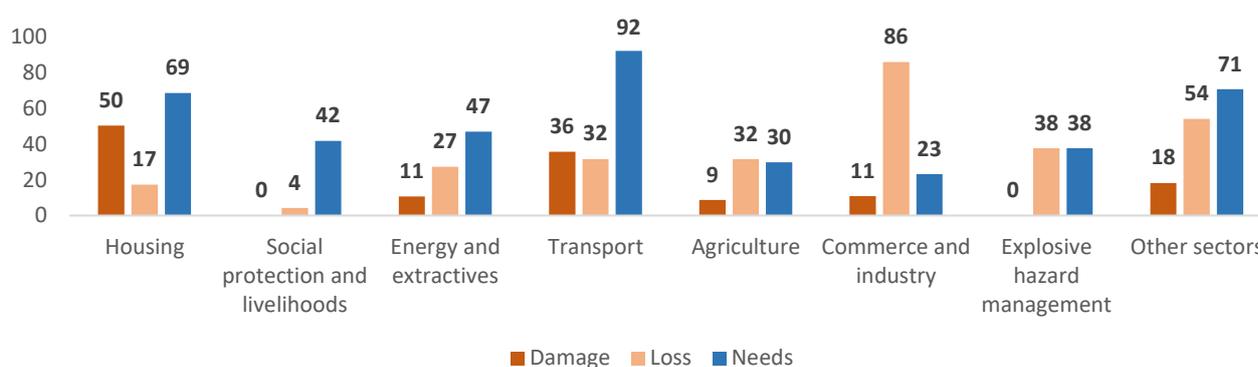
The Russian full-scale military invasion has caused significant damage and loss to Ukraine's economy. According to the Ukraine Rapid Damage and Needs Assessment, only direct damages to Ukraine's infrastructure reached USD 135 billion as of February 2023, yet financial loss is a few times higher.¹ Devastating war terribly impacted all sectors of Ukraine's economy. Ukraine needs USD 411 billion for future reconstruction and modernization. At the same time, the ongoing military operations still increase the cost of war and recovery needs.

As of May 2023, Ukraine is talking about counter-offensive that should liberate Ukrainian territory within its sovereign borders. At the same time, there are active talks about recovery, modernization, and sustainable economic growth of Ukraine that should secure an economic victory. Ukraine's government argues that Ukraine should become a magnet for international investment. The government has presented several plans and initiatives to support the process. The article examines needs, priorities, and sources of funding for recovery and modernization of Ukraine which are mirrored in government plans and activities.

Assessment of wartime losses

Ukraine's government and experts presented immediate assessments of war impact in the first weeks of the full-scale invasion. According to the project "Russia will pay", damage of physical infrastructure reached USD 63 billion already in the first month.² Ukrainian and international experts projected high GDP and export decline in 2022 considering downturn of economic activity. As a result, Ukraine needed a comprehensive assessment of its losses and needs for recovery. In April 2022, President Zelenskyy established the National Council for the Recovery of Ukraine that should monitor war damage and loss and develop a plan for post-war development.³

Chart 1. Total damage, loss, and needs by major sector, USD billion



Source: Ukraine Rapid Damage and Needs Assessment: February 2022 - February 2023, <https://documents1.worldbank.org/curated/en/099184503212328877/pdf/P1801740d1177f03c0ab180057556615497.pdf>.

In March 2023, the World Bank, the Government of Ukraine, the European Commission, and the United Nations published the upgraded Ukraine Rapid Damage and Needs Assessment (RDNA2). According to the report, direct damage (direct costs of destroyed or damaged physical assets and infrastructure) in Ukraine

¹ See <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099184503212328877>.

² See <https://kse.ua/ua/about-the-school/news/zbitki-naneseni-infrastrukturi-ukrayini-v-hodi-viyni-skladayut-mayzhe-63-mlrd/>.

³ See <https://www.president.gov.ua/documents/2662022-42225>.

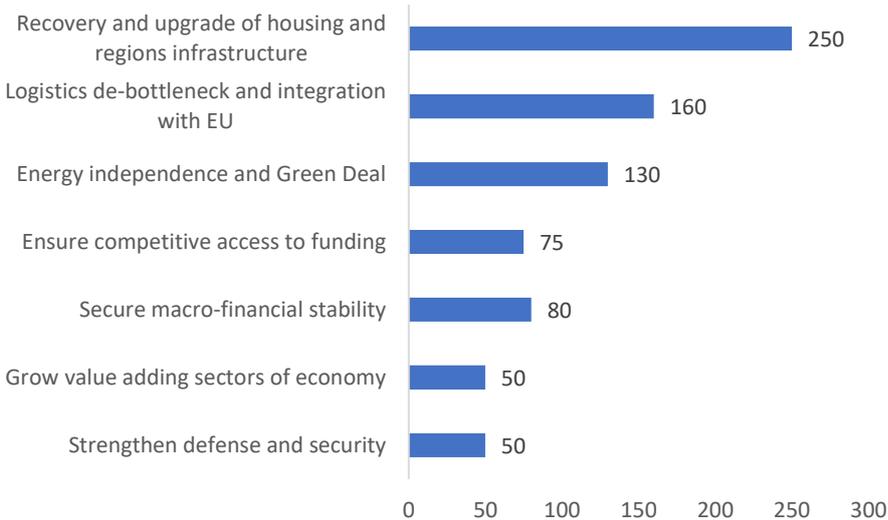
had reached USD 135 billion considering a full year of war (as of 24 February 2023). Housing is the most affected sector with USD 50 billion (38% of total damage). Among other most affected areas there are transport (USD 36 billion or 26%), commerce and industry (USD 11 billion or 8%), and agriculture (USD 9 billion or 7%). At the same time, aggregate economic, social, and other monetary losses reached circa USD 290 billion. Commerce and industry (30% of total loss), transport (11%), agriculture (11%), and energy (9%) suffered the highest loss. Considering active military land operations, damage and loss are disproportionate by regions. The highest war impact was noted in frontline regions (Donetsk, Zaporizhzhia, Luhansk, Mykolaiv, Kharkiv, Kherson) and regions where government regained control (Kyiv, Sumy, Chernihiv, Zhytomyr)⁴.

Selected sectors have had additional attention of experts based on their importance for Ukraine’s economy. For example, the Institute for Economic Research and Policy Consulting, a leading economic think tank in Kyiv, has already conducted 11 waves of enterprises survey that assesses war impact on the manufacturing sector. The results demonstrate that the war significantly impacted all sectors, but selected industries (food and light) were more likely to recover their operations. At the same time, metallurgy and metalworking, production of construction materials, and chemical industry suffer the highest levels of loss.⁵ Therefore, some sectors might need more attention in the recovery process.

Government priorities for recovery

In July 2022, Switzerland jointly with Ukraine organized the international Ukraine Recovery Conference in Lugano that kicked off a broad-based political process for post-war recovery and modernization. In Lugano, Ukraine presented, a long-term recovery scheme, developed by the National Council for the Recovery of Ukraine. As of today, the plan lists 850 projects for a 10-year period that require more than USD 750 billion of funding. Its implementation should be divided into two stages, years of 2023 – 2025 (580 projects worth of USD 350 billion) and 2026 – 2032 (270 projects and USD 400 billion). At the same time, the projects comprise 17 national programs that represent the major priority areas.⁶ It should be mentioned that Ukraine jointly with the United Kingdom organizes the international Ukraine Recovery Conference (URC 2023) in London on 21-22 June 2023. The event might provide additional insights on Ukraine’s vision of reconstruction.

Chart 2. Top-7 national programs according to the Ukraine Recovery Plan (maximum planned cost in USD billion)



Source: Ukraine Recovery Plan, <https://recovery.gov.ua/>

⁴ For more see <https://www.worldbank.org/en/news/press-release/2023/03/23/updated-ukraine-recovery-and-reconstruction-needs-assessment>.

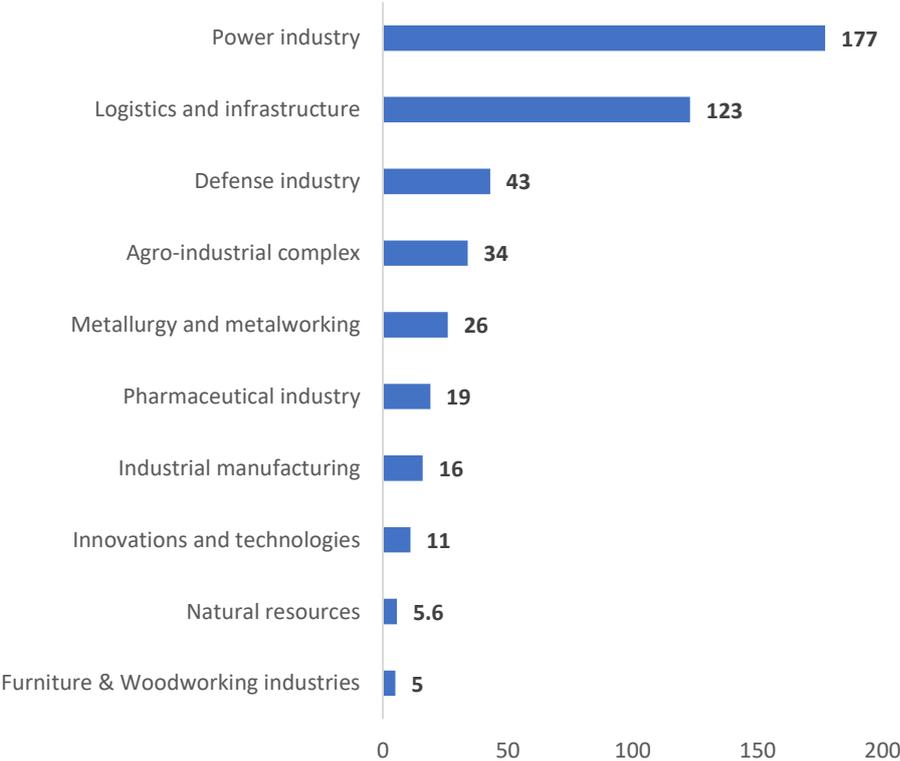
⁵ See New Monthly Enterprises Survey. March 2023. Institute for Economic Research and Policy Consulting. Kyiv, 2023, <http://www.ier.com.ua/en/institute/news?pid=7162>.

⁶ For more see Ukraine Recovery Plan, <https://recovery.gov.ua/en>.

The three most capital-intensive areas include recovery and upgrade of housing and regional infrastructure (USD 150 – 250 billion), logistics de-bottleneck and integration with EU (USD 120 – 160 billion), and Energy independence and Green Deal (USD 130 billion). At the same time, Ukraine needs investment to support value adding sectors of economy (USD 50 billion), recover and modernize social infrastructure (USD 35 billion), and strengthen defense and security sector (USD 50 billion). Such priorities mirror the sectors that have been severely hit in the first months of the war. At the same time, they represent potential modernization areas that can attract international investors and international aid.

In September 2022, the Government of Ukraine also initiated an investment online platform Advantage Ukraine.⁷ Through the web-portal, investors can register and obtain information on potential projects in ten priority areas, including defense industry, metallurgy and metalworking, agro-industrial complex, power industry, pharmaceutical industry, natural resources, logistics and infrastructure, furniture and woodworking industry. The government estimated investment potential of power industry at USD 177 billion (more than 50 projects), USD 123 billion in logistics and infrastructure (more than 30 projects), USD 43 billion for defense industry (more than 10 projects), 34 billion and more than 300 projects for agrifood, and extensive investment needs in other sectors. The initiative also has information on more than 2000 market players and startups in innovations and technologies that have USD 11 billion investment potential. It seems that the Advantage Ukraine initiative is more sector specific and targets primarily private investors.

Chart 3. Investment potential based on the Advantage Ukraine web-portal, USD billion



Source: Advantage Ukraine, <https://advantageukraine.com/>

The Ukraine Rapid Damage and Needs Assessment also summarized needs of Ukraine for recovery (see Chart 1). It is estimated that the cost of reconstruction and recovery has already reached USD 411 billion (as of 24 March 2023). This cost is also projected for the 10-years period. The cost includes expenditures for transport (USD 91 billion), housing (USD 69 billion), energy and extractives (USD 47 billion), social protection and livelihoods (USD 42 billion), commerce and industry (USD 23 billion), and other areas. The sum also covers modernization needs. For example, 80% of the needs of commerce and industry must be spent on rebuilding and modernization efforts.

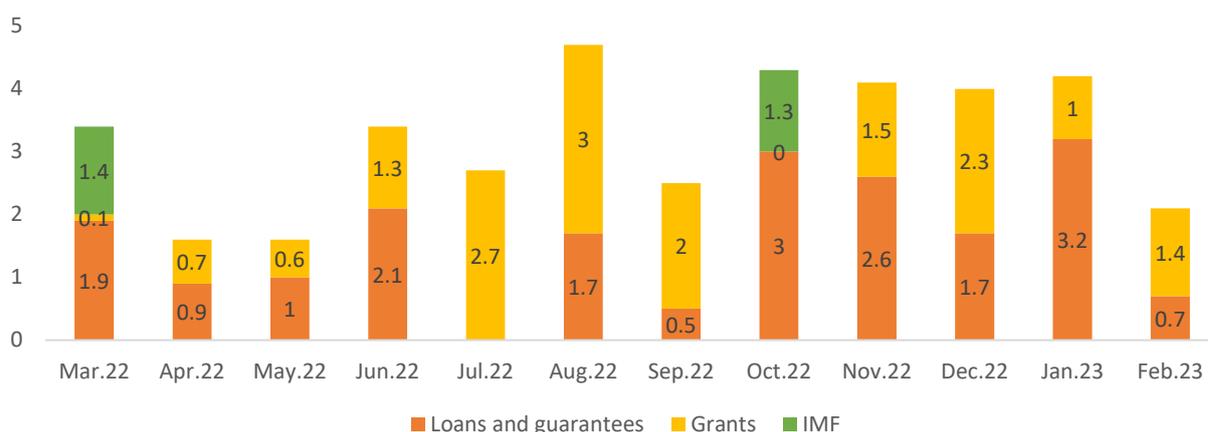
⁷ Advantage Ukraine platform, <https://advantageukraine.com/>.

Overall, Ukrainian plans might seem significantly ambitious, despite the ongoing war, and security and logistical concerns. However, the plans keep attention on priorities to recover and modernize Ukraine, which is vital for security and democracy in the West. Besides, the plans project points of growth potential for international partners of Ukraine. Post-war recovery and modernization will respectively boost economic growth of other countries that would supply technologies, automation systems, machinery, construction materials etc. Individual companies will also benefit from the early entry on Ukraine's market. Several sectors are already highly attractive for investors. For example, Ukraine's agrifood industry is highly competitive on the international market and has much more potential. Ukraine's defense industry already boosts the European defense sector.

Sources of funding recovery and modernization

Since the beginning of the full-scale invasion, international aid for Ukraine was mostly provided by the United State, EU member states, and other Western governments. The idea was to secure macro financial stability of Ukraine in the face of the enemy. According to the National Bank of Ukraine, international aid overcame USD 38 billion as of end-February 2023. Particularly, Ukraine received USD 19.3 billion of loans and guarantees, USD 16.6 billion of grants, and USD 2.7 billion of IMF assistance.⁸ Ukraine also expects USD 42 billion of financial assistance in 2023.⁹ Nevertheless, such expenditures mostly cover budget needs of the war-time country, not recovery and modernization. At the same time, foreign governments, private companies, international organizations, and other donors also provide financial aid for numerous humanitarian initiatives.

Chart 4. International financial assistance since 24 February 2022, USD billion



Source: National Bank of Ukraine. *Macroeconomic and Monetary Review*, March 2023,

<https://bank.gov.ua/en/news/all/makroekonomichniy-ta-monetarniy-oglyad-berezen-2023-roku>

Selected EU countries provide different types of support except their contributions via the EU institutions. For example, Denmark has provided EUR 1 billion in military support and EUR 192 million civilian contributions.¹⁰ In April 2023, Italy hosted Ukraine Recover Conference in Rome that invited circa 600 Italian and 150 Ukrainian companies. Several Ukraine-Italy cooperation agreements were signed. This demonstrates how selected countries can promote cooperation and recovery.¹¹ At the same time, Ukraine receives support from all around the world. For example, the Republic of Korea has committed to provide USD 230 million for Ukraine and Ukrainian refugees.¹²

⁸ See <https://bank.gov.ua/en/news/all/makroekonomichniy-ta-monetarniy-oglyad-berezen-2023-roku>.

⁹ See <https://suspilne.media/448479-ukraina-ocikue-na-42-mlrd-finansovoi-dopomogi-v-comu-roci-nbu/>.

¹⁰ See <https://um.dk/en/foreign-policy/danish-support-for-ukraine>.

¹¹ See https://lb.ua/world/2023/04/28/553342_italiya_hoche_vzhati_uchast_vidbudovi.html.

¹² See <https://thediplomat.com/2023/03/how-to-enhance-south-koreas-support-for-ukraine/>.

Several dozen countries pledged direct aid to Ukrainian regions.¹³ Regional patronage extends possible sources of funding recovery and modernization at the local level. As an example, two Italian regions Emilia-Romagna and Tuscany plan cooperation with respectively Kharkiv and Kyiv regions of Ukraine.¹⁴ Denmark has already started investing in recovery of Mykolaiv which significantly suffered from war damage. As of April 2023, Denmark provided EURO 20 million for Mykolaiv region. Estonia plans to provide EURO 30 million for reconstruction of the Zhytomyr region.¹⁵ There are also partnerships and possible partnerships with other countries and regions.

Ukraine has also established several platforms to find funding. As it was mentioned above, Ukraine's government launched the Advantage Ukraine platform with investment opportunities for foreign businesses. The Ministry of Economy of Ukraine informed that there were more than 500 requests about investment projects through the platform in the first 3 months since its launch.¹⁶ Potential investors are interested in innovation and technology, manufacturing, agriculture, extractions, infrastructure and logistics, energy, and defense industries.¹⁷ As of December 2022, 150 requests were proceeded by the Advantage Ukraine project team. The first 5 projects are also being considered by the American Development Finance Corporation (DFC) regarding insurance for military risks.¹⁸ Consequently, there are big hopes that the initiative would attract significant investment. Undoubtedly, foreign private investment should be the main source of post-war recovery.

United24 is another online platform that should support resilience and recovery of Ukraine.¹⁹ The platform, launched in May 2022, was designed for one-click donations to Ukraine. As of May 2023, United24 has collected more than USD 320 million. Ukraine seeks direct donations to defense, humanitarian demining, medical aid, rebuilding Ukraine, and education and science. Nevertheless, such donations are not enough for a full-scale recovery and modernization.

Finally, it is projected that Russia also must pay for reconstruction of Ukraine. G7 countries have frozen about USD 300 billion of the Russia's central bank. Several countries urge the EU to facilitate seizing frozen Russian state assets and use them for the reconstruction of Ukraine immediately.²⁰ There are also billions of frozen assets of Russian oligarchs. The scheme for such 'reparations' is still discussed due to the legal complexity of the issue.

Conclusion

To sum up, the full-scale war has had terrible impact on Ukraine's infrastructure and economy. Ukraine is in much need of financial assistance and investment for recovery and modernization. The government has introduced ambitious plans that focus on rebuilding different sectors of Ukraine's economy. Much investment is required for revitalization of housing, transport, energy, and other sectors significantly damaged by the war. Even more funding is needed for modernization of Ukraine's economy that should secure economic victory.

¹³ See <https://www.slovoidilo.ua/2023/03/01/infografika/suspilstvo/pislyavoyenne-vidnovlennya-ukrayiny-yaki-krayiny-vzyaly-shefstvo-nad-mistamy-ta-oblastyamy>.

¹⁴ See https://lb.ua/world/2023/04/28/553342_italiya_hoche_vzyati_uchast_vidbudovi.html.

¹⁵ See <https://www.ukrinform.ua/rubric-regions/3675785-zitomirsina-otrimae-vid-estonii-30-miljoniv-na-vidbudovu.html>.

¹⁶ See <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=129d0c90-1383-4fcf-bd8c-b6dc35661c44&title=-Advantageukraine-ZaTriMisiatsiUkrainaOtrimalaPonad500-InvestitsiinikhZapitiv>.

¹⁷ See <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=7920f653-6192-412d-aad8-3f166070ab17&title=DvaMisiatsiAdvantageUkraineOtrimanoPonad370-ZapitivSchodoInvestitsiiVUkrainu>.

¹⁸ See <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=9ecb5006-f5f6-44ef-b587-0a94fdaa6ad3&title=AdvantageUkraine>.

¹⁹ See <https://u24.gov.ua/uk>.

²⁰ See <https://www.theguardian.com/world/2023/feb/08/eu-urged-to-use-frozen-russian-assets-to-cover-costs-of-aggression-in-ukraine>.

Ukraine has big hopes to receive such funding through many initiatives established since the beginning of the war. Yet, private investment and Russian reparations might be the main source of funding.

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