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Rebuilding Ukraine: What the International Community Now Needs to Consider

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Summary

Rebuilding Ukraine starts *now* – even if it is being undertaken against a backdrop of conflict, violence and destruction, with Russia continuing to wage its war of aggression. In granting Ukraine European Union (EU) candidate status, the EU has also made the country's recovery one of its own priorities. If this reconstruction project is to succeed, then it is necessary to take into account specific contextual conditions, along with experiences from other recovery processes, such as those in the Western Balkans and Iraq.

- **Functional statehood:** Ukraine is better placed in this regard than many other countries, particularly given the **functional and widely accepted statehood** throughout much of its territory. Reconstruction assistance can kick-start a forward-looking, sustainable green transformation in the economy and society. At the same time, there is a risk that massive external cash flows could feed old **networks of corruption and patronage** and create new ones. Clear accountability structures are required, along with sanctions for the misuse of funds, if this is to be counteracted.
- **Agile planning over linear phase model:** Rebuilding work is taking place in an atmosphere of great uncertainty. Consequently, planning processes must be flexible in order to adapt to **different war scenarios**. A linear sequence of recovery phases fails to properly address the situation. This is already visible when it comes to efforts to **secure critical infrastructure**. Its proper functioning is essential to people's daily lives and to all forms of reconstruction, yet this infrastructure could become a target for attacks again at any time.
- **Ukraine as a self-confident partner:** As a result of the war's trajectory, the Ukrainian Government is adopting a **self-assured demeanour in its dealings with international donors**. While this is essentially a positive thing, it can also give rise to a resistance to reform. The **prospect of EU accession** creates a common objective to work towards and can also establish coherent criteria for the recovery process, but only as long as accession remains a credible prospect.
- **Managing reconstruction assistance:** Recovery funds have proven an effective means of coordination, though it remains to be seen whether there will be a single fund or several complementary ones. A central Ukraine fund should be (co-)managed on the donor end by the **European Commission**, as it has at its disposal the strongest reform incentive, namely EU accession. In the meantime, the EU needs to ensure that the Commission and the member states also provide the majority of the funding between them.
- **Diversity and inclusion:** The governance structures of the reconstruction project should be designed to afford participation and a say to pluralist **political institutions and civil society voices**, and strengthen gender equality. In order to counter brain-drain, it is also imperative that **young, mobile population groups** (including refugees abroad) feel included.
- **Social equity:** Incorporating social factors into the recovery process will also be essential. **Vulnerable groups** will require particular support, given the alarming level of impoverishment among the population as a result of the war.
- **Investment incentives:** Essential reconstruction services have to be provided by the **private sector**. This requires that clear incentives be created, not least by providing investment guarantees.
- **Developing trauma sensitivity:** The rebuilding work is taking place in a context of violence and trauma. This requires that **all stakeholders develop a particular sensitivity** in dealing with survivors of violence and engaging with a traumatised society.

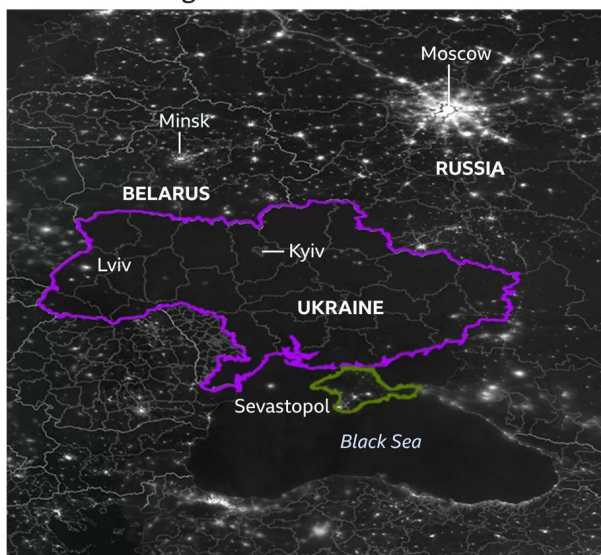
Context

Russia's war of aggression against Ukraine, launched on 24 February 2022, has now claimed tens of thousands of lives, forced around one third of the Ukrainian population to flee to other parts of the country or across borders to other states, caused significant damage to infrastructure and cultural artefacts, and severely weakened the economy.

It is estimated that Ukraine's gross domestic product (GDP) fell by approximately one third in 2022 compared with the previous year; even the most optimistic forecasts predict a long road to economic recovery for the nation in 2023. Figure 1 illustrates the impact of the war on energy supply.

Figure 1: Ukrainian cities at night, 24 November 2022

Ukraine at night



■ Russia annexed Crimea in 2014

Source: Nasa, 24 November

BBC

Source: BBC, using a satellite image from NASA. Reprinted by kind permission.

While an end to the war cannot be predicted any time soon, it is necessary – in the places that have experienced destruction, but are (no longer) witnessing direct fighting – to move as quickly as possible to create the conditions for economic and social life to resume, for refugees to return to their homes, and for people to develop new and lasting prospects. As was also stressed at the

expert conference organised by Germany's G7 Presidency and the EU in October 2022, **Ukraine's recovery starts now**, even if it is taking place in the midst of Russia's continuing war of aggression.

Recovery measures refer to all initiatives that seek to repair the damage done by the conflict to physical infrastructure as well as to political, economic and social structures. And yet, simply restoring things to their previous state would not be possible or advisable. Against the backdrop of Ukraine seeking EU membership in particular, it is necessary to see the recovery as part of a forward-looking transformation. At the same time, the reconstruction process includes acute measures for ensuring the immediate survival of individuals in the midst of the war and safeguarding the continued functioning of the state and society. This creates the necessary physical and psychological conditions for a comprehensive and transformative recovery.

Supporting Ukraine as fully as possible in its rebuilding work is one of Germany's and Europe's most vital tasks in the coming years. **In granting the country European Union (EU) candidate status, the EU has also made the country's reconstruction one of its own priorities.** This entails an enormous responsibility that the EU will need to shoulder jointly with international partners, such as the United States and the UK, and in close cooperation with the Ukrainian Government.

How can Ukraine have a successful recovery? What are the vital considerations for external assistance? This policy brief summarises key insights that can be derived from current research on Ukraine and from experiences in other reconstruction contexts. The aim is not to carry out a detailed examination of sector strategies, but rather to focus on key principles and the challenges that providers of Western recovery assistance are likely to face. The issue of financing the reconstruction process, for instance by using confiscated Russian assets, is not addressed here. Nor is it possible in this publication to consider relevant geopolitical questions, such as China's future role.

Statehood and peace: basic requirements

Experiences from Southeast Europe, the Middle East and Latin America teach us that recovery processes in post-war societies are linked to certain prerequisites without which even massive-scale international support can quickly unravel. **Two of these prerequisites** are especially important in the long term:

First, for a recovery to be successful, it is necessary to have legitimate state rule, that is, **a shared understanding of statehood on the part of society and policy-makers, along with state structures** that are geared to the interests of the population as a whole, rather than small-scale, yet influential particular interests. Compared with other countries bordering the EU, such as Bosnia and Herzegovina, Ukraine is relatively well placed in this regard: The state is not contested domestically (see Box 1).

Second, in addition to functional statehood, another essential requirement for Ukraine's sustainable recovery in the medium to long term is for **Russian aggression to cease**, be it in its current overt military form or in other hybrid and covert forms. Anyone wishing to support Ukraine's reconstruction must give consideration to suitable means of ending the Russian attack, even if this question goes beyond the mechanisms of recovery.

At the same time, the recovery must not be made contingent upon the cessation of all hostilities. Ukraine already requires massive financial support on a month-to-month basis. Initially, recovery work will commence in the absence of peace or a ceasefire. This carries risks, but is essential.

Recovery: opportunity and risk

International reconstruction assistance will see **considerable funding** channelled to Ukraine in the coming years. Estimates of long-term needs already stood at between USD 350 billion and USD 750 billion in summer 2022. And these did not yet include the immense damage caused by Russian attacks on critical infrastructure alone.

The EU has allocated EUR 18 billion in macro-financial aid for 2023, with similar amounts expected to be provided by the United States and international financial institutions. This will be supplemented by considerable sums of bilateral humanitarian assistance and recovery assistance

In spite of the tragedy of the situation, the expected international reconstruction assistance will offer Ukraine an opportunity to initiate **a forward-looking, environmentally sustainable transformation** of its economy and society. This transformation will boost the country's long-term competitiveness.

Box 1: Statehood in Ukraine

Even before the war began, the Ukrainian state enjoyed widespread **legitimacy** among the population. While successive governments have repeatedly faced fierce criticism from political opponents ever since independence, these disputes have taken place within an ever stronger understanding of Ukraine as a sovereign state in its 1991 borders, a view that has only become more firmly established since Russia's annexation of Crimea in 2014. The Russian invasion since 2022, the extent of military and civil resistance, and the high degree of self-organisation within society have further strengthened the Ukrainian people's sense of loyalty to their state. Two other significant factors contributing to legitimacy are a long-standing, lively and sophisticated civil society, and a common set of values that have been strengthened through recurring mass political protests since the Orange Revolution of 2004 and are expressed in Ukraine's ambitions to join the EU. Both of these factors help to ensure that the state remains focused on the interests of its citizens.

The Ukrainian state also has significantly better **personnel and administrative capacities** than the vast majority of conflict-ridden countries outside of Europe.

Finally, there is no challenge to the **state's monopoly on power** from any influential domestic political force (it is not possible to speculate here on the future status of the territories annexed by Russia). With the exception of the Russian aggressor and its few active supporters (such as Belarus), the Ukrainian state enjoys essentially unrestricted recognition around the world, even if numerous countries in Asia, Latin America and Africa are hesitant to take a clear stance against Russia.

Nonetheless, after gaining independence in 1991, the Ukrainian state was long characterised by **systemic corruption and state capture** by oligarchs, a situation that has been capitalised on by Russia. For years, efforts have been under way to reduce the influence of these structures. Key state reforms were initiated before the war, but have had no chance as of yet to be consolidated. In the meantime, the war has acutely affected the property and influence of oligarchs, making it impossible to predict their future role. However, experience from other recovery processes in the Western Balkans, particularly in the context of EU enlargement, teaches us that massive external funding flows run the risk of reinvigorating old networks of corruption and creating new ones. This would not only cause problems related to the efficient deployment of the available funding, but would also considerably weaken the essence of the Ukrainian state and delegitimise it in the eyes of citizens. It is in the interests of Ukraine and its international supporters to ensure there is a system in place for transparently monitoring the **financial assistance** provided as part of the recovery process, a system that creates clarity in regard to accountability and sanctions. Lessons need to be learned here from the previous economic relationships between the EU and Ukraine, which have proven more beneficial to networks of oligarchs than to smaller firms.

Recovery in the shadow of war

The international plans for the reconstruction of Ukraine are being launched at a time when it is **not possible to predict** which direction the conflict will take next, let alone **when it will end**. There are virtually no suitable case studies to consult when it comes to rebuilding a country in the shadow of an ongoing war between two states. However, recovery measures have also been implemented in the midst of conflict in other countries, such as Colombia. Ensuring that **plans and structures** for many different scenarios remain **flexible** will be key.

The rebuilding work is taking place in a context of **violence** and considerable social **trauma**. This goes hand in hand with the precarious nature of Ukraine's state control in disputed territories, extremely disparate socio-economic conditions, and a persistently high number of internally displaced persons and refugees abroad. Added to this are potential tensions between those considered as collaborators and other Ukrainian citizens in the territories occupied either temporarily or in the medium to long term by Russia. Recovery plans must be fit for addressing these challenges by responding flexibly to acute needs within the population, taking account of societal conflicts, and **not leaving the affected individuals out of the loop**.

It is to be expected that the severe threat of Russia employing hybrid forms of warfare against civil infrastructure and reconstruction work will remain, regardless of whether or not there is a ceasefire or peace accord. Analysis of official rhetoric and activity on the part of **Russia** suggests that the country will continue its attempt to destroy parts of Ukraine and exact revenge for the military reversals it has incurred. However, the **proper functioning of critical infrastructure** (electricity, water, communications networks) is vital to all types of rebuilding. Ukraine therefore requires assistance with its efforts to keep critical infrastructure operational and develop the **resilience** this requires (far more than under normal conditions). In the initial phase, this could mean that numerous smaller projects will be less at risk than large, visible ones. It will also most likely continue to be necessary to keep making adjustments in order to strike the right balance between functional priority-setting and geographical risk-sharing.

The broader the assistance provided by the international community to post-war societies, the greater the chances of achieving lasting peace. In addition to addressing the civil and military dimensions of security and strengthening state institutions in carrying out their mandate, it is important not to neglect the provision of support to civil society initiatives, which is an essential component in processing experiences of war. This

also includes **dealing with the trauma of violence and displacement**, as well as raising awareness among all stakeholders of how to engage with survivors and a traumatised society.

International support and EU accession prospects

The complex question at the heart of any massive external reconstruction assistance project concerns how to strike the right **balance between promoting ownership by the partner government and considering the legitimate expectations of international partners**, and how to reflect this in the governance structures of the recovery process. It is thus crucial to establish an objective shared by the government and external donors. The **prospect of joining the EU** creates such an objective (albeit a vague one at this point) in the case of Ukraine.

The prospect of EU membership can be linked to the recovery on two fronts: as a strong incentive for elites and society in Ukraine to establish and/or consolidate democracy, the rule of law and meritocratic state structures, and as a means of leverage within the international community to press for a common vision to be prioritised over individual bilateral interests and for corresponding coordination initiatives to be taken seriously.

Ukraine's desire for EU membership also creates **starting points for a truly transformative recovery process** in a whole range of key reform areas. These include: anti-corruption initiatives in the public sector; work to strengthen an independent judiciary; efforts to align the transport, construction and agricultural sectors with the sustainability goals of the European Green Deal; measures to develop and consolidate suitable state regulatory structures, and moves to integrate the country into a sustainable European energy supply system, not least as a provider of green hydrogen. Ukraine's EU membership aspirations also create prospects for realignment in other key sectors.

At the same time, the EU must take care that it does not fuel the stereotype of enforced foreign

rule in the way it communicates and conducts itself. Providing systematic support and **involving Ukrainian experts**, including Ukraine's research institutions, could play an important role to avoiding this.

Planning and sequencing

The uncertain environment means that a linear **phase model** of reconstruction **would not suit the realities** on the ground. It is highly likely that none of the phases would go according to plan, causing difficulties with transitioning to each new phase.

There will undoubtedly be tremendous pressure to prioritise the restoration of basic infrastructure initially. While this would address existing needs, using it as a basis for deriving a phase logic would be risky. Announcing an initial phase focused purely on recovery to be followed by reform measures and transformation efforts only at a later stage runs the risk of setting Ukraine on a backwards-looking course and creating permanent path dependencies. Doing so could squander the chance to achieve structural reform. Additionally, there is a particularly high risk of corrupt elite networks becoming (re-)established during these initial phases, unless suitable reforms are introduced – in the justice sector for instance – to counteract this risk, as illustrated vividly in the case of Kosovo.

However, any attempt to enforce a reform focus at all costs and to gear every individual measure to the highest standards of viability and sustainability from the outset would be disastrous. Such a course of action would risk overwhelming planning processes, hinder the initial achievement of visible quick-wins, and stifle the ability of the public to seize the initiative.

Consequently, what is needed is not so much a comprehensive master plan as an **understanding of the recovery process** that places the emphasis on **participation and ownership by the public, cities and municipalities, and the private sector**, and a political framework at national level that incentivises forward-looking

decision-making and drives the reforms required for EU accession, particularly in the justice sector.

Given the extremely dynamic context, recovery plans should be written as living documents to allow the sequence of measures, geographical focal points and substantive priorities to be readjusted on an ongoing basis to take account of the unfolding situation. This will require demonstrating a high degree of flexibility and tolerance for what will be at times chaotic circumstances, while simultaneously holding fast to the objective of structural reform.

What is required of Ukraine

Tying long-term recovery assistance **to conditions that bring Ukraine closer to the objective of EU accession** is a legitimate (and, compared with other recovery processes, the strongest conceivable) means of ensuring that funding is deployed as effectively as possible, not least in the interests of donors.

EU accession is contingent upon fulfilment of the extremely broadly worded Copenhagen criteria and adoption of the *acquis communautaire*. In similar contexts, such as in the countries of the Western Balkans, Germany and the EU used this accession conditionality as an incentive mechanism for urging governments to implement far-reaching socio-economic and rule-of-law reforms and respect human rights. Attempts were thus made to embed short-term emergency and reconstruction measures into long-term democratisation processes and to employ a mechanism for closely monitoring comprehensive financial contributions provided to state authorities. At the same time, **experiences in these countries also show that accession conditionality is an instrument with limitations** and that structural resistance to reform can be deeply entrenched.

Nonetheless, Ukraine's self-declared goal of becoming an EU member state provides significant leverage for generating the necessary level of **ownership of long-term initiatives** on the part of the Ukrainians and for securing greater acceptance of the conditions for external assistance. The EU

criteria also offer civil society organisations the opportunity to identify deficits and so strengthen the link between the recovery and reforms.

It is, however, likely that international donors will be dealing with a highly **self-assured Ukrainian Government** as a result of the conflict. While this creates an opportunity for an effective reform policy where this is in the interests of the ruling elite, it also brings with it the risk of greater resistance to reform. Ukraine's elite could be tempted to use the war and the suffering of the population to shrug off uncomfortable external demands and simply request fresh economic assistance. Consequently, it will not be easy for the EU to insist on transparency, systematic monitoring and the fulfilment of all the accession criteria. While the Ukrainian elite is strongly in favour of the country's EU ambitions, this does not mean that both sides will always have the exact same expectations. In the event of conflict, it may be helpful to submit a list of specific requirements, fulfilment of which is linked to a positive short-term incentive for Ukraine.

What is required of the international community

The conditioning effect exerted by the **prospect of EU accession** will depend in the long term primarily on just **how credible** this prospect proves to be. Given the fact that questions about the EU's internal governance as an enlarged union are still to be clarified, the promise of membership, which as such is only contingent upon conditions being met by the accession candidate, represents a bad cheque for the time being. It has been observed in the Western Balkans that linking the accession process to the geopolitical or bilateral interests of individual member states can massively undermine the credibility of the EU, a situation that Russia, for instance, is likely to do all it can to inflame. It is thus conceivable that the accession process could be made more flexible and gradual integration steps could be undertaken ahead of full membership in order to avoid turning this strong incentive mechanism into a source of growing frustration in Ukraine and the EU alike.

There have also been instances in the Western Balkans and other conflict contexts of informal decision-making structures and clientelist networks thriving in particular in times of armed conflict and later, once the conflict phase has ended, providing a breeding ground for corruption and state capture, as well as undermining democratic decision-making processes. The comprehensive requirements of the EU accession process, combined with substantial financial assistance, have served in the Western Balkans to strengthen the executive at the expense of the legislature. Decision-making processes have been moved to informal structures and networks. Therefore, if EU expansion instruments are to have a positive impact, then it will be necessary to first strengthen key watchdogs in the country (e.g. audit institutions, ombudsmen) and place a clearer focus on implementing, rather than merely officially fulfilling, criteria.

Ukraine's international supporters face the challenging task of systematically and *largely* implementing the necessary conditionality without at the same time attempting to transform the country into a model EU member state within an extremely short period of time. The wealth of experience gained by the EU's Support Group for Ukraine (based within DG NEAR), which has closely monitored the key areas of reform for many years, could help in striking the right balance.

Steering and coordination

International recovery funds have proven an effective means of financing and steering major reconstruction efforts. They make it possible to:

- establish a centralised strategic dialogue with the partner government on the deployment of funding, which may also involve coordinated conditionality;
- gear, by means of a steering committee led jointly by the government and donors, the recovery activities to the priorities of the partner government and coordinate the activities of a whole range of donors to this end;

- avoid burdening the partner government by negotiating with numerous individual donors;
- pool funding in order to overcome the problem of the recipient having to deal with the wide-ranging budgetary requirements of many different donors.

In the case of Ukraine, the **steering committee** overseeing such a fund (or a funding platform) should be managed or co-managed at the donor end by the European Commission as the actor with the greatest incentive instrument (EU accession) at its disposal. Nonetheless, to this end, the EU needs to ensure that the Commission and the member states also provide the majority of the funding between them.

It is extremely important that the fund can ensure sufficient **coordination of the individual donor activities**, which means it requires a **strong substantive mandate**. At the same time, such a fund should not evolve into a centralist financing and administrative apparatus that does not permit any appropriate bilateral initiatives under its coordinating umbrella structure. **Bilateral programmes** of reconstruction and budgetary and reform finance and advisory services should instead be **adaptable**. Germany will also be keen here to introduce proven instruments and organisations of bilateral financial and technical cooperation. It will be incumbent upon the participating German Government ministries to develop and implement a **common German Government strategy** that ensures inter-ministerial coherence and contributes collaboratively and stringently to the umbrella strategy of the fund and to do so more effectively than in past reconstruction processes.

Functional, transparent public administration, based on the rule of law

Anti-corruption and judicial reform: Experience from past recovery and transformation processes shows that old state structures (both formal and informal) are highly resilient and adept at staunchly resisting reforms towards greater transparency

and accountability. If there is a failure to **establish external recovery assistance at an early stage in such a way that prevents corrupt structures from going about their well-rehearsed practices of obtaining economic rents**, then there is a greater risk that tensions within society will be exacerbated rather than alleviated through the reconstruction process. This is illustrated by experiences in Afghanistan, Iraq and Yemen, for instance.

Post-1991, Ukraine served as an example of *decentralised corruption*: The permanent competition between the many different actors over finance flows led to serious issues with productive economic activities and, in particular, long-term investments. The war has created a new situation in this regard. The political power in the country has probably never been as centralised since independence as it is now, and the oligarchs, until recently so influential, have been considerably weakened. Essentially, this means that, regardless of the specific individuals concerned, there is a risk that the decentralised corruption of the past may be replaced by centralised political corruption at the highest level.

There is also a need for a clear anti-corruption strategy, though this will have to be developed with a sense of proportion. Too uncompromising a prevention strategy, for example, could result in processes becoming excessively bureaucratic and correspondingly inflexible. Given the acute reconstruction needs, this would be counter-productive. It is thus important to strike the right **balance between anti-corruption and bureaucratic overreach**. Efforts to strengthen local institutions which perform important control functions (e.g. free media and an active civil society) can play a key role in this regard.

A core factor in decentralised corruption and the influence of numerous oligarchs at regional and local level over the last few decades was a judiciary that could be bought. The failure to achieve reform in this area has hindered and halted progress in numerous other areas of the state and the economy. It will thus be necessary to mainstream fundamental **judicial reform as a requisite component and priority issue within**

the recovery process. Securing a commitment on the part of the judiciary to the rule of law would be enough in and of itself to significantly enhance the credibility of state actions, boost confidence in state institutions, and create legal and investment security in the private sector.

Decentralisation: Since Ukraine achieved independence, a sustainable and functional reordering of relations between the local, regional and national governments has been on the agenda. While corresponding efforts have been undertaken in this area, the results have long been unsatisfactory. However, a comprehensive decentralisation process in recent years has mainstreamed far-reaching powers at local level. This process provided key impetus, yet remained incomplete. It must now be reinvigorated and adapted from the ground up as part of a democratisation process. **Decentralisation** needs to be a **key component of a transformative recovery**. The prominent role and responsibility of local actors (e.g. mayors) in the war and new horizontal links offer starting points for a participatory transformation. Nonetheless, experiences with parallel administrations installed by Russia in the occupied territories will put societal cohesion to the test at the local level.

Regulation: Virtually all substantial reform areas, including the transport, health, telecommunications and environmental-conservation sectors, as well as the competition policy sphere, require **modernisation of their regulatory structures** in order to accomplish the transformation towards an environmentally, economically and socially sustainable development model. As such, Ukraine will require external actors to advise it on reforms. Germany has in GIZ, for instance, an internationally respected organisation in this field, but there are also many multilateral organisations with considerable expertise in the individual areas of reform. Partner countries often consider multilateral organisations to be more effective and helpful at setting the agenda for reforms and providing support for implementing them. As the past has shown in many developing countries and emerging economies, a large number of uncoor-

minated reform-advice initiatives is inefficient and imposes high transaction costs on the administration requiring the advice. The different external initiatives for providing advice on reforms and supporting regulatory modernisation must therefore be limited in number and, more especially, coordinated in such a way that Ukraine's preferences and the requirements of EU accession can be taken into account as effectively as possible.

Challenges of the political system

The war has already permanently changed the political landscape in Ukraine. This process has not yet been completed. As such, **a whole range of domestic political scenarios must be considered** in the context of the recovery. Depending on the direction the war takes, President Zelensky's authority and room for manoeuvre will either increase or decrease. While he currently enjoys a high level of popularity, this may change as the war unfolds or if an end to the conflict is negotiated. Political struggles are also conceivable.

Before the war, the largest opposition party in parliament was "Opposition Platform – For Life", a conglomerate of regional and personal economic interests that exploited issues of language and identity to mobilise its followers. It was one of the parties that was banned during the war. **The basis upon which a new and electable opposition party could form is unclear.** Every hint of a pro-Russian orientation is discredited. President Zelensky's predecessor, Petro Poroshenko and other well-known politicians of the past, including Yulia Tymoshenko, will have no chance of reviving their campaigns. New political actors will come onto the scene, including those emerging from the wartime context (military leaders, veterans, etc.).

The **strong current focus of power within the executive** and most especially with the President, and the emphasis on the recovery could permanently limit the scope for political opposition (including in parliament). Technocrats could displace political institutions (including parties) as decision-makers, thereby weakening these institu-

tions in the long term. The **governance structures of the reconstruction process should** be designed in such a way as to counteract this risk and **afford pluralist political institutions and civil society voices the change to participate and have their say**. It would also be important in so doing to strengthen **gender equality**.

Civil society involvement

Providing **targeted support to civil society actors and initiatives** in post-war societies allows short-term prospects to be created for population groups particularly affected by traumatic experiences of war and violence and long-term democratic structures to be built from the ground up. In this conjunction, it is especially important to give consideration to **young and mobile population groups** in order to preventively counteract an impending brain-drain and at the same time integrate the **large number of refugees** (including young people) **abroad** in the recovery process (without requiring their return). There is also scope here to mainstream gender equality and non-discrimination in the recovery and societal transformation process. Younger generations are far less active within formal, established structures such as NGOs, but more involved in social movements, loose, thematic networks and transnational groups. Reaching and strengthening this target group will require **cross-border thematic funding programmes** that are sufficiently **flexible and non-bureaucratic** (covering topics such as environmental conservation and climate action). Recourse should be made here at an early stage to funding structures operated by Ukrainian partners, with a view to these partners gradually taking ownership of the initiative, not least financially (if necessary with external co-financing).

The conflict situation has given rise to a tangible **expansion of societal engagement**, including voluntary work with few or no institutional ties. It is necessary to capitalise on this momentum and potential to promote the recovery/transformation. Simply involving established organisations in the planning and implementation processes to this

end will not suffice. There is a particular need at local level for **spaces** and projects **in which the existing societal engagement can be continued**, thus legitimising the recovery at the grass-roots level.

Involving and promoting the private sector

Given the ongoing military uncertainty, large-scale investments by the private sector are fraught with tremendous risk. Even if there were a relative stabilisation of the conflict, there would still be an ever-present risk of fresh Russian attacks. International reconstruction assistance work should thus provide **default guarantees for direct investments** in order to attract major private-sector investors. It will also be necessary to use state assistance to **leverage private capital** for financing large investment and infrastructure projects. Additionally, substantial **funding programmes** will be required as a (temporary) extra incentive for Ukrainian and European **small and medium-sized enterprises** to invest in Ukraine. It is important that these subsidies generate as few deadweight effects as possible and at the same time provide incentives for environmental sustainability. Nonetheless, previous findings on leverage and the effects of cooperation with the private sector are inconclusive. An effective system is thus required to **monitor** the extent to which public funding actually mobilises private-sector engagement.

The Ukrainian diaspora, which has expanded significantly as a result of the war, also represents **a new source of economic cooperation** and thus potential investment. The forced displacement of Ukrainians has led to the forging of numerous links with the European private sector, which could be leveraged for the recovery. **A key condition in this regard** is the **freedom of movement** associated with the EU Temporary Protection Directive. If Ukrainian refugees do not have to fear losing their status within the EU as a result of travelling to Ukraine, then they are likely to be more willing to contribute to the recovery,

even if the unclear outlook means they have not yet arrived at a definite decision regarding returning to the country.

Overall, the mobilisation of international migrant networks and the emerging **networks (trans-national in many cases) of refugees** who continue to have close ties to Ukraine constitute a promising resource for the nation's transformative recovery.

(Re-)integrating refugees

A key societal task of the recovery will be the (re-)integration of refugees. The number of internally displaced persons and refugees that have fled to other countries is in the millions. Around one third of the entire population is currently on the move. Not all of them will be able or wish to return to their homes, especially given that many Ukrainians have already had to flee them on several occasions since 2014. However, most are hoping to **return** in the near future, though this process **will rarely be without tensions**. Communities and civil society organisations will require support to assist returnees and those that were left behind in coping with their exceptionally difficult psychological and socio-economic situation, and also to counteract the build-up of resentment between refugees and those who never left.

Social security and a just transition

The Ukrainian people are fast becoming more and more impoverished. The World Bank estimates that the poverty rate stood at 25 per cent in late 2022, up from single digits before the war, and that it could well top 50 per cent in 2023; other estimates paint an even more precarious picture of the situation. Destruction, reintegration, recovery and transformation pose enormous social, economic and cultural challenges to the Ukrainian people, who will not be able to overcome all of them without state support and social security. If the Ukrainian state wishes to retain its legitimacy in the eyes of the population, then it needs to not only ensure that the recovery and simultaneous

transformation are socially responsible, but also **substantially reduce social hardship** in the medium term, prioritising in the process goals such as **gender equality, less socio-economic exclusion and greater social cohesion**.

Ukraine will also require support with these enormous tasks. Donors could make social security instruments available in the short to medium term, though these instruments should be applied wherever possible **by means of the country's existing transfer systems**. Even when reforming the existing social system, external financial and technical assistance should be designed in such a way as to **leave no ambiguity concerning the responsibilities of the Ukrainian state, including in the area of ownership**. If external organisations end up performing the

relevant work in place of the Ukrainian state, then the latter risks losing legitimacy amidst allegations of illegitimate influence from outside parties.

Conclusion

The outcome of the war being waged against Ukraine by Russia remains uncertain. Financial assistance is already being provided and infrastructure repair work carried out as part of the recovery, with a medium-term focus on a transformation encompassing all areas of society and the state. Ukraine offers a relatively conducive environment for these activities, though the risks are not insignificant. The recovery process will only have a chance of achieving lasting success if it is inclusive, flexible and supported jointly by Ukrainians and international partners.

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