

How to unblock FDI, capital flows and private sector development

The recovery challenge

Ukraine must emerge as a new country after the war, with its economy transformed from one dominated by vested interests and state-owned enterprises, to one that is innovative, green and inclusive. For reconstruction and modernization to succeed, efforts from a multitude of donor countries, multilateral institutions and the private sector will be required, in addition to those of Ukraine's government and people. On the financing side, Ukraine will need to attract significant amounts of funding from a wide range of sources – estimates of the rebuilding costs range from \$349 billion to \$1 trillion. As such, it will be essential to facilitate additional private sources of funding for Ukraine by breaking down investment barriers that pre-date the war.

Policy recommendations

To modernize and transform the country post-war, Ukraine and its partners must:

- 1. Make a multi-year, multibillion-dollar commitment with a set time line for EU accession.** Membership of the European Union (EU) and a robust security arrangement with the West are both central to guaranteeing Ukrainian sovereignty and independence. The EU offer to Ukraine must include a specific time line and set of conditions for Ukraine's accession as a full member within 10–15 years. Alongside pledges of financial assistance, these commitments will ensure Ukraine has a clearly defined 'roadmap' outlining what is required to join the EU, giving businesses the confidence to invest for the long term. In addition to EU membership, which will strengthen institutions, full NATO membership will act as a powerful deterrent to any future Russian revanchism.
- 2. Define roles and responsibilities for donor countries, development agencies, international financial institutions and development finance institutions to avoid duplication of effort and ensure efficient use of scarce resources.** All conditionality requirements should be aligned with the reforms necessary for both accession to the EU and successful delivery of the current IMF programme. Ukraine and its partners must create the right institutional setting around their efforts towards reconstruction – for example, the possibility of creating a sovereign agency for development, owned jointly by Ukraine and partner countries, that would coordinate development, act as a clarion/champion for domestic policy reform, partner with private investors and be a potential source of financing itself. Such an agency could take a similar shape to sovereign wealth funds operated in other countries (e.g. Temesek in Singapore).

- 3. Prioritize reforms that will strengthen governance and accountability, and create the enabling conditions for greater private investment in Ukraine.** Such reforms should align with the requirements of Ukraine's EU candidacy. In relation to business investment, the most critical of all these reforms is the strengthening of Ukraine's judicial system to ensure it is free from corruption. On the economic front, key measures will include breaking the power of vested interests and creating a level playing field for Ukrainian businesses of all sizes, free of the undue influence of corrupt actors. A well-functioning, independent court system that draws on the dispute resolution and bankruptcy laws of Ukraine's Western allies is another key aspect of a regulatory environment which is fit for purpose. Pre-war efforts to decentralize the Ukrainian government must also continue. The international community should engage with municipal administrations on reconstruction efforts, as well as with central government.
- 4. Offer innovative financing solutions.** One such solution would be a pool of development finance funding from partners amounting to \$5 billion per year over five years. This commitment would not only provide \$25 billion in risk-mitigation financing, but would enable the private sector to mobilize at least four times that amount in private capital. Ideally, this funding pool would enhance alignment and co-financing among development finance institutions in Ukraine through agreed term sheets, due diligence principles and a shared pipeline of deals. Other tools could include the use of frozen Russian assets, or SDR reallocations, to provide collateral to improve the availability of capital for reconstruction and reduce its cost.
- 5. Provide accountability and transparency mechanisms, including support for local civil society, contractor procurement and investor screening, preventing malign influence, and vetting and prequalifying companies and contractors.** Working closely with the Ukrainian government, the EU, the US and other international partners should establish an independent monitoring and evaluation system to ensure that funds allocated for reconstruction are properly tracked and that it is possible to judge the success or failure of projects.
- 6. Focus on digitization to help limit the scope for graft, and create the transparency and accountability to assure donors and the private sector of progress towards sound economic governance.** The destruction of existing infrastructure provides an opportunity post-war to upgrade to a digital infrastructure (e.g., antennas, fibre network, sensors) without disruption to everyday life. Digitization provides a platform for all vertical economic sectors to become greener, more sustainable and more resilient. Digitization will ensure open access, speed and transparency of transactions, and will be equally critical in enabling EU and NATO accession.



More resources

Jackson, D. and Lough, J. (2022), *Accountability in Reconstruction, International Experience and the case of Ukraine*, conference paper, London: Royal Institute of International Affairs, July 2022, https://www.chathamhouse.org/sites/default/files/2022-07/EUACI_Lugano_Paper_1%20July_0.pdf.



Savoy, C. M. and Staguahn, J. (2023), *Enabling an Economic Transformation of Ukraine*, report, Washington, DC: Center for Strategic and International Studies, 10 January 2023, <https://www.csis.org/analysis/enabling-economic-transformation-ukraine>.