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Rebuilding Ukraine

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HOSTED BY **HENNING HOFF**, EXECUTIVE EDITOR, INTERNATIONALE POLITIK QUARTERLY (IPQ) AND **JAN STÖCKMANN**, HEAD OF THE DIRECTOR'S OFFICE, DGAP



Dear reader,

Death and destruction in Kharkiv. Russia's massive attacks on infrastructure. A ruthless hail of drones and bombs on the civilian population in large cities and small towns. Ukraine is fighting, it is struggling, it is defending itself against a resurgent aggressor, it is losing territory. And now, in the midst of the most difficult fight to defend the country, a Ukraine Recovery Conference, 838 days after the full-scale Russian attack on Ukraine—does this really make sense? We think so. Because reconstruction has already begun: of a country in dignity, freedom, and self-determination. In addition to the indispensable aspects of security, weapons, and troops, it is vital to consider other approaches: economic and social ones, of alliances and civilian opportunities.

Thus, *Internationale Politik* presents this special issue in cooperation with the Federal Foreign Office. The main section is divided into four dimensions of the recovery, each with three or four analyses; you will find many critical voices here, no whitewashing and no political PR. The first dimension is on strengthening the economy, followed by the second on aspects of social recovery and human capital. Considerations about local commitment make up the third section, questions of accession to the EU form the conclusion. German Chancellor Olaf Scholz emphasizes the importance of the European context in his text: "The future of Ukraine and its citizens lies in the EU—an EU that managed to overcome the old divisions of our continent in east and west." And this is how he describes the URC's goal: "To ensure successful reconstruction and economic growth, we are joining forces with our multilateral partners to mobilize the private sector within and outside Ukraine to the best of our abilities."

Also in this special issue, Ukrainian President Volodymyr Zelensky states soberly: "I appreciate everyone who helps us confront Russian evil and protect life. This mission is truly global." Well—the task may be global, but the response so far is certainly not; many countries in the so-called Global South see this war as a European problem just as they do the reconstruction of the country. Changing this is a particular challenge.

There will be fighting in Ukraine for a long time to come. More support and surely more weapons from the West will be needed. Nevertheless, it is right to look to a time after the end of this war: to the recovery, reconstruction, reform, and modernization of a free Ukraine.

A handwritten signature in black ink, which appears to read "Martin Bialecki". The signature is fluid and cursive.

Martin Bialecki
Editor-in-chief

Let's Work Together

We are not only supporting Ukraine's sustainable and resilient recovery, we want to build back better.

Olaf Scholz | It has been more than 10 years since Russia illegally annexed Crimea in a blatant violation of international law and started the conflict in the Donetsk and Luhansk regions of eastern Ukraine. Since February 24, 2022, Russia has been waging a full-scale illegal war of aggression in total disregard of Ukraine's independence, territorial integrity, and sovereignty. Missile and drone strikes are a deadly reality for Ukrainians across the country. Unspeakable horrors have been committed by Russian troops and mercenaries. Civilian infrastructure such as hospitals, kindergartens, schools, universities, cultural heritage, theaters, factories, power plants and ordinary people's houses have been destroyed. Countless lives have been lost and millions have been driven from their homes.

As Ukraine's second-largest bilateral supporter, and in lockstep with our partners in the G7, EU and beyond, Germany is firmly committed to helping Ukraine defend itself against Russia's aggression—for as long as it takes. At the same time, we can already begin today to lay the foundations for a free and democratic, strong and European Ukraine in the future. There is no time to lose for recovery, reconstruction, reform, and modernisation, building on the successful conference hosted in Berlin together with the president of the European Commission back in 2022 during the German G7 presidency.

In line with the Lugano Principles, we are not just supporting a sustainable and resilient recovery of Ukraine, but we also want to build back better. To support this vision, we are promoting education, healthcare, social services, infrastructure, and the transition to climate neutrality, as well as advancing mine action and the integration of veterans, internally displaced persons, and returnees.



Besides tackling immediate needs and implementing rapid recovery projects, we are also supporting Ukraine in creating a favorable environment for businesses to attract more private-sector investment. The potential is huge—after all, Ukraine is committed to becoming a member of the European Union, the largest common market in the world.

To ensure successful reconstruction and economic growth, we are joining forces with our multilateral partners to mobilise the private sector within and outside Ukraine to the best of our abilities.

It is against this backdrop that Germany and Ukraine are co-hosting this year's Ukraine Recovery Conference (URC) in Berlin. The URC will stress the key role that the private sector and civil society will play, but also highlight the pivotal function of municipalities and regions with respect to recovery, the distribution of financial resources, and capacity-building. At the same time, we will work together to strengthen transparency and accountability as they are key to building trust in Ukraine's successful recovery.

The future of Ukraine and its citizens lies in the EU—an EU that managed to overcome the old divisions of our continent in east and west. Few other places epitomize that idea of European unity more than Berlin, the city where—35 years ago—the wall between east and west came down; where people's desire for freedom and self-determination prevailed, paving the way for Germany's reunification and a united Europe.

Our shared goal is to mobilise continued international support for the recovery, reconstruction, reform, and modernization of Ukraine. Let's work together to make this happen! •

Olaf Scholz is chancellor of the Federal Republic of Germany.

Ukraine's Life Must Triumph

By defending our shared values, we ensure that they are upheld worldwide. Rebuilding Ukraine is a global task.



Volodymyr Zelensky | This year's Ukraine Recovery Conference is an excellent opportunity to rally resources to rebuild Ukraine. I anticipate a large number of countries, leaders, and private businesses attending, and I thank Germany for its leadership in organizing the event.

The significance of rebuilding Ukraine extends far beyond simply restoring damaged infrastructure, homes, and businesses. This is a truly historic and global task. The free world's collective determination to restore life must be stronger than that of the evil force that attempts to destroy it. This is exactly the kind of determination we need today. Ukraine's recovery must become an example for the rest of the world. By ensuring that not a single ruin is left following Russian aggression, the international community will deprive all potential aggressors of motivation for starting wars of aggression and inflicting devastation upon their neighbors.

Setting examples of resoluteness and commitment to protecting life is the only path forward for the free world in the current circumstances of growing threats from authoritarian regimes and rogue actors. Together, we must set such examples despite all obstacles. We must thwart Russia's offensive plans and attempts to seize more Ukrainian land. We must ensure the success of the inaugural Global Peace Summit in Switzerland. We must join efforts in recovering Ukraine and proving this and any other potential aggression futile.

The Ukrainian people must sense that the power of the free world is greater than the power of the insane regime in the Kremlin. They must already see now that the global coalition of Ukraine's friends—governments, private businesses, organizations, civil societies, and all of the world's decent people—

has the capacity to ensure that life triumphs over the ruins left by Russia's terror. They must believe that there is a path ahead and that better opportunities await them and their children. All of our partners can contribute to ensuring this by actively participating in Ukraine's recovery and defense.

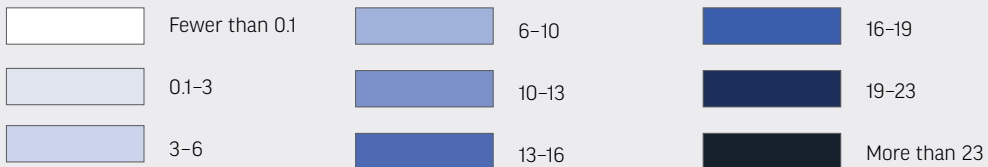
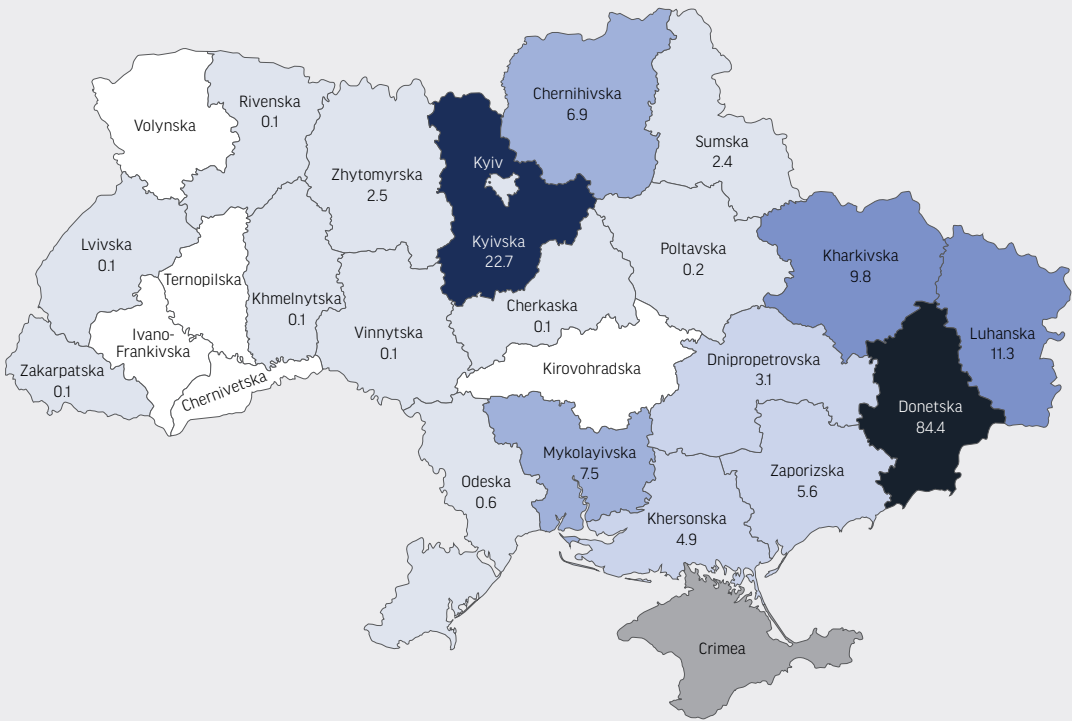
I want to specifically thank Chancellor Olaf Scholz, his government, all democratic political forces in the Bundestag, and all Germans who sincerely support Ukraine and our people during this challenging time. German support saves Ukrainian lives and gives our people hope that there is a better future. Germany's leading role in matters ranging from military aid to the Peace Summit to Ukraine's recovery is also forming the foundation of a peaceful, stable, and prosperous Europe.

Russian aggression has caused enormous destruction and suffering in Ukraine. No single country, organization, or entity can handle such a massive undertaking on its own. This is why there is room for everyone in Ukraine's recovery effort. And everyone who already contributes to it is a true defender of life. This year's conference focuses on the private sector's contributions as well as the close links between EU accession, reforms, recovery, and reconstruction. The role of private investment in Ukraine's recovery is vital, and I am confident it can be significantly expanded.

I strongly encourage all governments, private companies, and individuals worldwide to actively participate in the URC 2024 and anticipate practical outcomes, projects, and resources that will contribute to Ukraine's recovery at its conclusion. I appreciate everyone who helps us confront Russian evil and protect life. This mission is truly global. •

Volodymyr Zelensky is president of Ukraine.

Breakdown of regions by the number of destroyed or damaged housing units (in thousand units)



Source: Kyiv School of Economics, May 2023

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Paving Ukraine's Way to EU Membership

Annalena Baerbock | Every day, Ukrainian men and women are defending their country against the Russian onslaught. They are doing so in the trenches, in the barracks, in the air defense command posts—but also in parliament, in their businesses, and in civil society.

Russia's war against Ukraine is also directed against our free European way of life. Therefore, the strongest protection for our democracies, alongside our much-needed military support, is to pave Ukraine's way to European Union membership.

At the Ukraine Recovery Conference (URC), we are rallying a wide range of public and private stakeholders who are crucial to this endeavour. Focusing on early recovery, reconstruction, and reform, our joint message is clear: We stand firmly together. For as long as it takes. For a Ukraine in peace and freedom, within our European Union. •

Annalena Baerbock is the German minister for foreign affairs.



Building Back Even Better

Svenja Schulze | The Russian war of aggression causes immeasurable suffering in Ukraine. The German development cooperation supports its Ukrainian partner with everything that makes daily life more bearable: electricity, housing, and medicine.

At the URC we are including civil society, trade unions, and municipalities to find the best solutions for Ukraine as a future member of the EU. There are many areas where we need everyone's committed efforts. Small and medium-sized enterprises are the backbone of the economy in Ukraine. For them, favorable financing is key. Rebuilding the country also requires skilled workers. We need to invest in education and training, especially for women. Municipalities and regions play a key role, too.

People have been living in fear for more than two years. Strengthening the physical and mental health of Ukrainians is a central issue that both our countries will be tackling together. •

Svenja Schulze is the German minister for economic cooperation and development.



Defending and Rebuilding Ukraine Is a Generational Task

Robert Habeck | For more than two years, Russia has been waging its war of aggression against Ukraine in violation of international law. Germany is standing by Ukraine's side—for as long as it takes. There can be no doubt: Defending and rebuilding Ukraine will be a generational task, one that cannot be shouldered by public budgets alone. Providing the country and its people with lasting protection and a prosperous economic future will only be possible with a substantial contribution from the private sector.

This understanding ought to guide us at the 2024 Ukraine Recovery Conference. Its success will much depend on a good turnout of German, international, and, of course, Ukrainian companies. The URC offers the ideal forum for showcasing Ukraine's strong potential. I hope that this conference will send a strong message for investments to promote the ability of Ukraine to defend itself and to make the country's economy fit for the future. •

Robert Habeck is German minister for economic affairs and climate action.



United We Stand for Europe's Future

Denys Shmyhal | The best way to predict the future is to create it.

In unity with the EU and our global allies, we can build a peaceful and prosperous future together.

Every euro invested in Ukraine is an investment in a secure Europe and in the future of the EU, because we will soon be part of it. Ukraine is laying the foundations for its economic miracle right now. Our approach pivots on pioneering military-industrial innovations; new energy; natural resources, especially critical raw materials for EU self-sufficiency; the agricultural sector with a focus on deep processing; our dynamic IT sector.

Ukraine's recovery is already underway; the private sector will play a key role in it. It is a team game and we invite the European and global business community to join our team.

Together we will lay the foundations for European growth in the 21st century.

Stronger together. •

Denys Shmyhal is Ukraine's prime minister.



This Century's Most Ambitious Recovery Project

Dmytro Kuleba | Ukraine's recovery is likely the most ambitious recovery project of this century, comparable in scale only to Europe after World War II. Every country, leader, organization, and entity can contribute to this historic mission.

The Ukraine Recovery Conference remains a key platform for mobilizing international support to rebuild Ukraine. This year's URC centers on the role of businesses and private investment in recovery and reconstruction, as well as the natural connections between Ukraine's EU accession, reforms, recovery, and reconstruction. I anticipate active participation from the international community, including political leaders, international organizations and financial institutions, private sector representatives, municipal and regional authorities, and civil society.

I also expect the URC to deliver tangible results and am grateful to this year's host country, Germany. •

Dmytro Kuleba is the Ukrainian minister of foreign affairs.



War Is No Embargo on Investments

Yulia Svyrydenko | A restored Ukraine today is the foundation for victory tomorrow. The reconstruction is an example of unity between the government, partners, and the private sector.

In spite of the war, Ukraine is a country of opportunities for investors with a range of incentives and specific projects in key sectors, such as energy and logistics, agricultural processing, critical raw materials and the green transition, digitalization, and innovations in military technology.

These past two years have taught us that war is not an embargo on investment. In 2023, foreign direct investment inflows were \$4.25 billion, reaching the level of 2016 and 2017. This winter, I visited a factory in Dnipro near the front line. The factory owner told me, "I'm planning to open a new tea production line, and neither the war nor the Russians will stop me." Today, I am sipping a cup of his tea.

All this shows that the best time to invest in Ukraine is now. •

Yulia Svyrydenko is Ukraine's first deputy prime minister and minister of economy.



Strengthening the Economy

Ukraine's economy is growing again, thanks in no small part to its new entrepreneurial class. Private investment and medium-sized businesses will play a key role in the country's reconstruction.

Investing in Ukraine's Recovery

The country's current journey from continued resilience toward recovery and reconstruction amidst an ongoing war requires a multi-faceted approach.

By Robert Kirchner and Garry Poluschkin

Ukraine's economy grew by 5.3 percent in 2023, according to recent official estimates, much in line with the forecast by the German Economic Team (GET) and the Institute for Economic Research and Policy Consulting (IER). For 2024, we estimate a further increase of 4 percent. However, Ukraine's economy remains far from its pre-war level, after a GDP decline of 29 percent in 2022.

While improved private demand is the key driver of the current growth trajectory, which is further supported by positive development of export logistics via the Black Sea, Russia's recent attacks on energy infrastructure, which caused cross-country electricity blackouts, clearly limit the growth perspective.

A Financing Challenge

Before the full-scale war, Ukraine's economy was dominated by private sector business activities, accounting for roughly four fifths of gross value added (GVA) and three quarters of employment. However, these activities were primarily driven by domestic companies (approximately 88 percent),

rather than by foreign ones (approximately 12 percent). Similarly, private sector investments remain key for both a stable economy under war conditions and sustainable long-term reconstruction in line with the so-called build back better principles.

Estimates by the World Bank, the European Union, the Ukrainian government, and the United Nations suggest a total of \$486 billion in reconstruction costs (as of December 2023). These institutions highlight the fact that the private sector should play a critical role in overcoming this huge financing challenge. The public sector cannot and should not be the only contributor.

There is a vast amount of economic literature demonstrating that foreign direct investment (FDI) drives economic productivity gains, thereby lifting the growth trajectory and avoiding public sector crowding-out effects. This is why economists emphasize the importance of FDI as a "cornerstone" for modernizing and rebuilding Ukraine's economy, as Torbjörn Becker and others have put it in "A Blueprint for the Reconstruction of

Ukraine,” published by the Centre for Economic Policy Research in 2022. A successful FDI strategy for Ukraine rests on three important factors, which we will outline in the following paragraphs: on reliable sustainable financial public support; on de-risking and security against war risks; and on investment climate reforms and EU accession.

Reliable Public Support

First, sustaining economic and financial support from its partners is crucial for Ukraine’s resilience during the war. The financing of the budget is the ultimate condition for paying social assistance to people affected by the war; wages or salaries to soldiers, teachers, and other state employees; as well as for providing economic assistance to enterprises. This is no easy task. The International Monetary Fund (IMF) estimates a cumulative budget deficit of \$81 billion between now and 2027 that will not be financed from domestic resources. Despite efforts to raise taxes, Ukraine is reliant on public aid from its foreign partners.

The EU’s recently adopted Ukraine Facility serves as a key anchor. Its Pillar I allocates approximately \$41 billion (€38 billion) to Ukraine’s budget and is thus the main financing source for this time period. In addition, there is the assistance from international financial institutions (IFIs) such as the IMF and bilateral partners including Canada, Norway, Japan, and others. While all these efforts contribute to covering Ukraine’s estimated budget deficit needs, they still leave a gap of around \$21 billion. Therefore, the US support package approved in April by the US Congress, which provides an additional \$8 billion, is key to closing this gap.

Apart from the necessary financial support to keep Ukraine’s state functioning,

further support is needed to strengthen economic resilience. For example, the re-establishment of the Black Sea export corridor is a success story that is contributing to Ukraine’s economic resilience without additional direct public aid. Further steps could include considering partial access to the European single market as well as alleviating existing border blockades that are currently causing economic disruptions.

In all these support steps, the EU is and will be playing the main role as Ukraine moves along its path toward full membership. Both kinds of support—for the budget and for export development—sustain the accumulation of international reserves of Ukraine. Its accumulation allows the National Bank of Ukraine to liberalize capital controls that have been in place since the introduction of martial law in 2022. Among other things, they restrict foreign businesses from transferring profits from Ukraine abroad—a direct challenge for new investment. Therefore, continued public support is a necessary condition for further liberalization steps in this regard.

Sustained economic and financial support from its partners is crucial for Ukraine’s resilience

De-risking and Investment Security

Second, private investments during the war and in its aftermath require both funding support and insurance guarantees. Banks have to set high risk weights for financing investment in Ukraine due to the low country rating. Unsurprisingly, interest rates are extremely high,



Robert Kirchner is authorized representative and deputy team leader of the German Economic Team (GET) at Berlin Economics.



Garry Poluschkin is consultant and project manager Ukraine of the GET at Berlin Economics.



and some businesses have lost collateral. Therefore, market-based financing is currently almost impossible. Again, the EU's Ukraine Facility provides a key tool against this. The Pillar II investment framework intends to de-risk investment by providing approximately €8 billion to European IFIs for implementing financial guarantee schemes for private companies investing in Ukraine.

Another aspect is related to the insurance of investments. Direct damage to infrastructure and businesses was recorded at \$155 billion in January 2024, according to an estimate by the Kyiv School of Economics. Therefore, the insurance of private investments against war damage is critical for new investment project planning during the war but also in the post-war period. Investment guarantees, such as those provided by the German government, offer this kind of protection and help to mobilize private investment from German companies. However, despite a record of 22 approved applications in 2023, the total volume of €55 million is still relatively modest.

Moreover, IFIs such as the European Bank for Reconstruction and Development (EBRD), the Multilateral Investment Guarantee Agency (MIGA, which is part of the World Bank Group) and others are actively working on similar schemes. However, a shift toward domestic investment guarantee schemes (obviously backed by Western financial support) could be a game-changer for domestic investors that make up the majority currently. In this context, it is important to highlight the strong link between security arrangements (e.g. bilateral or multilateral arrangements between Ukraine and partner countries), risk perceptions by investors, and their actual investments. The stronger these arrangements and commitments, the more secure investors will feel about their engagement in Ukraine, and the higher the resulting investments.

Investment Climate Reforms

Last but not the least, addressing long-standing rule of law issues is paramount for improving Ukraine's business and investment climate. Judicial reform and



One economic sector that has shown great resilience is transport: Ukraine's trains have kept running reliably despite Russia's full-scale invasion. Transport is one of four key sectors for investment and reform.

alignment with the EU's norms and regulations are integral to attracting more FDI and progressing toward EU accession. Here as well, Pillar III of the EU's Ukraine Facility is key to providing technical assistance and incorporating the EU's Instrument for Pre-Accession.

Despite obvious challenges due to the war, reforming the investment climate must continue. A recent joint study by the German-Ukrainian Chamber of Industry and Commerce (AHK Ukraine) and GET has outlined 30 concrete policy proposals in this regard. These proposals, based on input from AHK member companies, include horizontal and vertical market reforms in different sectors of the economy. Finally, as experience from previous

EU enlargement rounds in 2004 and 2007 shows, the perspective of eventual EU membership is clearly driving FDI well before actual accession.

Key Investment Sectors

The key reference for all three pillars of the Ukraine Facility is the Ukraine Plan. This reform plan, developed by Ukrainian authorities and approved by the EU, sets out reform areas and identifies four key sectors—agriculture, energy, transport, and critical raw materials. Reforms and investment in these sectors are of great importance, accelerating Ukraine's growth trajectory, and providing synergies with the cross-cutting objectives of green transition and digital transformation.

The focus on energy and green transition is of particular importance. While Russia is constantly attacking critical energy infrastructure, Ukraine has to find a balance between quick short-term basic rebuilding to keep the economy afloat as well as cities livable on the one hand and rebuilding by having in mind long-term sustainability goals on the other hand. Strengthening the decentralization of the energy system is highlighted as a key goal in the Ukraine Plan, which can help navigate this trade-off and simultaneously contribute to energy security and resilience. For example, installing rooftop solar photovoltaic panels combined with batteries can be economically efficient as decentralized systems for critical infrastructure facilities, such as schools.

Overall, Ukraine sees the reform plan as a cornerstone for investment in its economic recovery and economic convergence with peer countries, such as Poland, that are already EU member states. In addition, the defense sector is also an important area for investments. The inclusion of a number of representatives from German defense companies in a delegation that joined Vice Chancellor Robert Habeck's visit to Kyiv in April demonstrates the interest of both the German and the Ukrainian side.

A Multifaceted Approach

Ukraine's current journey from continued economic resilience toward recovery and reconstruction amidst an ongoing war requires a multifaceted approach, encom-

The role of the European Union in Ukraine's survival and recovery processes cannot be overstated

passing financial and economic support, investment climate reforms, and security and de-risking arrangements for private investments.

By tackling these factors and fostering collaboration between domestic and international stakeholders, Ukraine can navigate the challenges of war and emerge stronger, laying the groundwork for sustained economic growth and stability. Prioritizing these support measures is imperative for the duration of the war. Strengthening economic resilience is a necessary precondition for Ukraine's survival amidst the ongoing challenges the war brings. Fiscal support, coupled with measures to enhance economic capacities, is essential.

While efforts to improve the investment climate and ensure investment security must continue, significant private capital inflows are likely to materialize only once the war subsides. A gradual transition from public to private funding sources will then ensue, marking a pivotal phase in Ukraine's economic recovery. All in all, both the emphasis on continued immediate support for survival during the war and laying the conceptual ground for a sustainable "build back better" reconstruction should be the main priorities for this year's Ukraine Recovery Conference.

The role of the EU in these processes cannot be overstated. Beyond the continued military, financial, economic, and humanitarian support, the EU accession process will have a potentially huge impact on private sector investments via two main channels: reforms in the area of rule of law—a traditional weak spot in Ukraine's institutional framework—as well as obtaining full access to the opportunities offered by the single market of more than 450 million consumers. **IP**

The Hidden Champions of Economic Development

Mid-sized businesses have become the main pillar of Ukraine's economy. They will play a key part in the recovery, also given their societal role.

By Oksana Kuziakiv

Medium-sized private enterprises, often the unsung heroes of economies, are not just economic powerhouses but also societal pillars. They play a pivotal role in the economic development of a country, operating domestically and in foreign markets. Compared to their small and large counterparts, medium-sized businesses demonstrate higher viability, better access to external financing, and the advantages of “economies of scale.”

These companies are not just profit-driven but also consumer-oriented, exhibiting greater flexibility in responding to changes in demand and the business environment. Beyond their economic significance, they are often run by a crucial group of stakeholders: social elites.

The representatives of these companies are often the torchbearers of liberal values, advocating for freedom, a free and democratic society, and equal rules for all. Their societal impact is as significant as their economic contributions, making them indispensable in the fabric of Ukraine's recovery.

In Ukraine, medium-sized businesses remained terra incognita for many years—hidden among small companies or standing in the shadow of large ones at turbulent times. Since 2003, the country saw two peaceful revolutions for democratic and European rights. Russia's war against Ukraine has been going on for 10 years, and Russia's full-scale military aggression against Ukraine has been going on for the past 28 months. What has happened to medium-sized businesses in Ukraine lately? In 2023, the Institute for Economic Research and Policy Consulting (IER), with support by the Friedrich Naumann Foundation, conducted a study regarding their development and their future prospects (“Medium-Sized Business in Ukraine: Terra Incognita or Hidden Mittelstand”), on which this article is based.

What Has Changed?

In 2022, there were 494 large, 14,800 medium-sized, and 246,600 small companies operating in Ukraine, in addition to 1.4 million individual businesses. According to 2022 data, medium-sized companies



Oksana Kuziakiv is chief executive and head of the Center for Contemporary Society Studies at the Institute for Economic Research and Policy Consulting (IER) in Kyiv.

employed 2.6 million people or 34.8 percent of all employees. From 2010 to 2022, the share of employed people working in medium-sized businesses increased from 31.7 to 34.8 percent of the total number of employees. Medium-sized companies accounted for 44.4 percent of products and services sold in 2022, which increased from 39.4 percent in 2010.

These statistics testify to the significance of medium-sized businesses and their growing role in Ukraine. However, in addition to the quantitative contribution to economic development over two decades, the quality and nature of medium-sized businesses have changed.

In 2003, medium-sized companies consisted mainly of privatized state-owned enterprises that had reduced the number of employees. Twenty years later, most medium-sized enterprises were newly created private companies, most of which have grown from small to medium-sized. While in 2003, 88 percent of medium-sized businesses were privatized state-owned enterprises, in 2023, most medium-sized businesses (76 percent) were newly created private companies.

Size Matters

Medium-sized businesses in Ukraine have many advantages over small and large companies. First, they enjoy a more positive image. In particular, our study states that, unlike large businesses, medium-sized businesses are not associated with oligarchy. Instead, according to the

Medium-sized companies employ 34.8 percent of the workforce and stand for 44.4 percent of sales

respondents, their growth “reflects the development of society and is an indicator of its maturity.”

Second, medium-sized businesses are characterized by greater stability in turbulent conditions: 76 percent of respondents believe that medium-sized businesses have greater resilience and a bigger margin of safety in times of high turbulence. When comparing medium-sized businesses with small ones, respondents particularly noted a higher level of automatization of production processes, more advanced business procedures, and sophisticated management at medium-sized enterprises. All this led to better financial results. Among the advantages of medium-sized businesses, 88 percent of respondents named a lower cost of production, and 77 percent pointed to better investment opportunities.

In 2023, 55 percent of small businesses surveyed said they did not want to increase the number of employees. In 2003, there was a similar picture: Although 45 percent of small businesses planned to grow, only 5 percent expected to reach the 50-employee threshold.

What keeps small businesses from growing into medium-sized ones then and now are insufficient demand, fear of losing tax advantages, lack of investment resources, limited access and the high cost of credit resources, and accounting requirements. It is important to note that these obstacles have not changed much over the past 20 years, though in some places, the importance of certain obstacles has changed.

In 2023, the biggest obstacle was low demand for products (56 percent of respondents); in 2003, low demand was also a problem for almost the same share of enterprises (53 percent), but the problem only occupied fifth place. The ranking of

obstacles in 2003 was topped by the obstacle “lack of resources for investment” (66 percent). In 2023, that was also a significant issue (55 percent of those surveyed reported this problem), sharing second place with the obstacle of “loss of tax advantage” (also 55 percent). In 2003, the possible loss of tax advantages for small businesses was also a significant reason for restraining growth (second place in the ranking).

The fear of losing the simplified taxation system (a special Ukrainian tax plan to support micro and small businesses in place since 1998) has been one of the most significant obstacles preventing small businesses from growing during this time. What exactly are entrepreneurs so afraid of? They are wary of the complex administration and reporting requirements associated with switching to the primary tax system.

Against the backdrop of the growing importance of respecting property rights (a concern expressed by 22 percent of re-

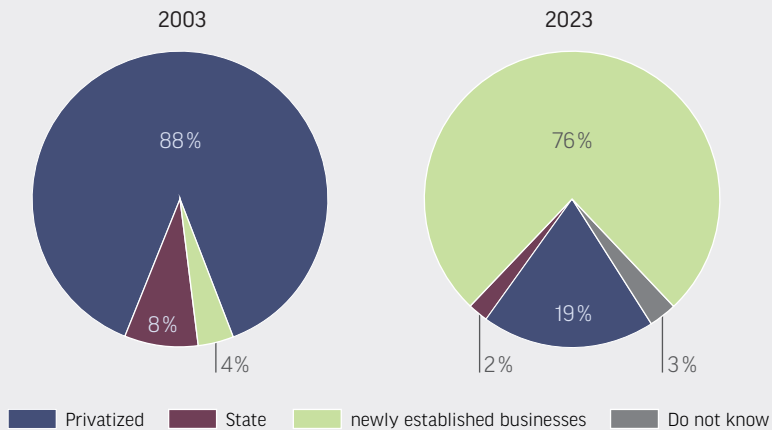
spondents in 2003 and 45 percent in 2023), the fear of common tax and accounting rules and procedures indicates the urgent need for greater simplification of tax administration procedures and the creation of a fair justice system.

Resilience in Times of War

During a full-scale invasion, medium-sized businesses show a higher resilience level than businesses of other sizes. Since May 2022, IER has been conducting monthly surveys of more than 500 industrial businesses of various sizes, and according to our research, the share of companies operating at full or near-full capacity has been highest among medium-sized businesses for almost the entire period since the survey’s launch.

In March 2024, 68 percent of medium-sized businesses operated at full and almost-full capacity, compared to the pre-war period. Among large, small, and micro businesses, the figures were 61 percent, 54 percent, and 26 percent, respectively. Me-

Distribution of enterprises by form of ownership in 2003 and 2023



Source: IER survey of medium-size enterprises, 2003, 2023

dium-sized businesses were also the most optimistic about increasing the volume of production and sales of goods during 2023.

Not Only Economic Leaders

Entrepreneurs and citizens interviewed by the IER in the course of the study also noted the leading role of medium-sized businesses in societal development. Fifty-eight percent of respondents believe that an entrepreneur is an “active citizen, a driver of the country’s development,” and 38 percent believe that entrepreneurs are “ordinary citizens who want to earn money for a decent standard of living for their families.” Only 5 percent of respondents believe that entrepreneurs want to enrich themselves at the expense of their fellow citizens.

This is a significantly different attitude toward entrepreneurship and medium-sized businesses compared to 2003. When describing entrepreneurship in Ukraine more than 20 years ago, respondents used such words as “confidence” (65 percent of respondents), “knowledge” (50 percent), “diligence” (44 percent), “skills” (43 percent), “money,” and “ideas” (both 35 percent). When describing the portrait of an entrepreneur, business representatives used a slightly different set of words—“hard work” (49 percent), “skills” (37 percent), “profit” (35 percent), and “money” (33 percent).

The role of medium-sized businesses in societal development is evidenced by the active participation of such companies in all the modern democratic revolutions in Ukraine and the huge support for the country now as Ukraine fights for its existence and the movement toward European Union membership. Businesses are actively involved in the volunteer movement and assisting the war effort. Seventeen percent of the surveyed citizens and 23 percent of

surveyed entrepreneurs indicated “volunteering” as a word associated with the word “entrepreneur.”

Accelerators

Over the past two decades, despite the economic crises and the not always favorable business climate, new private businesses have grown. Medium-sized companies in particular bear the burden of the regulatory climate; they have neither the privileges of a small business nor the resources that large companies command. At the same time, they play a large role in developing a society based on European values.

Medium-sized companies bear the burden of the regulatory climate; they have neither the privileges of a small business nor the resources that large companies command

Since the start of Russia’s full-scale invasion, medium-sized businesses have shown a higher resilience level than entities of other sizes. This is one reason why medium-sized businesses will be key drivers of the recovery. However, better conditions must be created for them, particularly a system of fair justice and a simplification of the tax administration.

Finally, there is a wide awareness of medium-sized businesses in Ukraine as reliable partners and enthusiastic supporters of Ukraine’s move toward membership in the European Union. This makes them stakeholders in the reforms associated with that process.

IP

Running a Business in the Midst of War

Entrepreneurs who run small or medium-sized companies in Ukraine have been forced to navigate the economic fallout of Russia's full-scale aggression—often with remarkable success.

By Liz Cookman

PROFILE

Fedir Serdiuk Giving First Aid

Since Russia launched its full-scale invasion of Ukraine in February 2022, the world has been inspired by the resilience of the Ukrainian people in the face of heinous aggression. The same hardiness has also been displayed by the country's small and medium-sized companies, with entities like FAST—a first aid and specialized training provider—thriving despite the considerable challenges posed by the war.

The origins of FAST lie in co-founder Fedir Serdiuk's experience setting up a Red Cross disaster management team in 2014, when he was just 19, in the wake of Ukraine's pro-Europe "Revolution of Dignity." Following a number of deaths during the country-wide protests, he wanted to teach the community first aid, and it soon became a private company. Profits were redirected to provide free training in combat first aid to the military.

FAST operates both domestically and internationally as perhaps Ukraine's largest first aid provider, and trains around 12,000 civilians a year. It was featured in Forbes Ukraine's Next250 list in 2023 and has more than 230 clients, including PepsiCo, Metro AG, Carlsberg, and Citibank.

In 2020, FAST expanded to offer health and safety as well as fire safety training to businesses. It suffered a huge setback, however, when the COVID-19 pandemic hit early that same year. "Most of our profits came from offline events like training," said Serdiuk. Their solution was to hire a team of doctors specialized in infectious diseases and instead advise businesses on how to operate safely amid the coronavirus crisis.

The experience was an important lesson, and Serdiuk, who had been concerned about the possibility of a full-scale Russian invasion since 2016, kept flexibility at the core of FAST's modus operandi. It is this ability to adapt and reinvent that has been key to FAST's success amid the full-scale war in Ukraine and the economic and logistical challenges that have come with it.



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In the early weeks of the conflict, FAST moved quickly to set up a new charitable entity, PULSE, and move staff over temporarily while FAST was restructured away from corporate health and safety. PULSE offers military training, such as blood transfusion training, and although the two entities are separate, they work together to supplement each other. FAST has also evolved its client base, which now includes emergency services.

Quick Movers

Large companies, hampered by their size, are often slow to change. That's what makes micro as well as small and medium-sized businesses vital to Ukraine's recovery—they can innovate quickly to meet new demands and adjust to new circumstances. The country has proved resilient as these entities already make up 99.98 percent of Ukraine's businesses and provide 74 percent of all jobs, according to research by the United Nations Development Programme, Ukraine's Centre for Economic Recovery, and the Ministry of Economy released in February 2024.

The research found that although these entities had suspended operations in 2022 following the invasion, 82 percent had partially resumed their activities by the end of 2023. Businesses also reported they are cautiously optimistic about their prospects in 2024, despite the unpredictable situation continuing to cause concern, indicating potential for further economic recovery, even with no end to the devastating war in sight.

That's not to say it has been easy for FAST. Clients have been lost, with some companies relocating abroad amid safety concerns and others no longer operating—one of their biggest corporate clients was Mariupol's Azovstal steel works. It was heavily damaged during a brutal months-

long siege of the city, which is now under Russian occupation. There have also been equipment shortages, such as a global tourniquet shortage in 2022, import delivery problems, and a large drop in the value of the Ukrainian currency (the hryvnia) against the dollar.



“It is physically and mentally harder now,” said Serdiuk. “If you are running a large charity operation, providing humanitarian support and operations to help support those involved in combat, and redeveloping your business, it's very challenging. We work 16 hours or more a day, me and the team. We are overwhelmed with tasks.”

However, by tapping into a different pool of clients, they are now seeing similar sales levels to before the war. Having strong relationships with other entities

FEDIR SERDIUK, who runs FAST—a first aid and specialized training provider—has managed to return to pre-2022 sales levels.

allowed them to source supplies on the understanding that they will pay later down the line, and they have found it easier to hire managers as the war has brought with it a change in attitude. “People understand now why first aid skills are so important, that we’re not just crazy people obsessed with tourniquets,” said Serdiuk.

Small and medium-sized enterprises such as FAST also offer more to the economy than the sum of their revenues. Serdiuk says that as well as providing jobs and income for people, and taxes for the government, their work helps save lives, which means more people contribute to the country’s GDP. After the war, if there is a big influx of foreign investment into Ukraine—as many have predicted—they will also be on hand to help companies comply with Western standards on workplace safety, and therefore attract more business.

To assist Ukraine’s recovery, Serdiuk encourages people to buy goods and services from Ukraine. “The threat from Russia is European, even global. We are all on the same side of the barricades—me, a first aid company founder; a Ukrainian soldier; a Polish logistics company; a German farmer; a US politician. For liberty, prosperity, we must all unite.”

PROFILE

Max Maslii **Fixing Problems**

Ukrainian software development and consultancy firm Digicode has weathered a dizzying number of crises since it was established in 2008.

Founded in the difficult wake of the global financial crisis, it has since survived a revolution, the outbreak of war in Ukraine’s east in 2014, and the global



COVID-19 pandemic. “All were bad for business,” said co-founder Max Maslii. “Russia’s full-scale invasion, however, was beyond bad—it has been a nightmare.”

The calls started coming in from worried clients even before the invasion in February 2022, as the United States warned repeatedly of an imminent conflict. “One client asked me: ‘What will I do if you all die?’ I told him that most likely we wouldn’t have any business together anymore,” Maslii joked.

Digicode, whose goal, Maslii said, is to “help innovators change the world,” has a team of almost 400 people. As well as two offices in Ukraine, the company has offices in the United States, the United Kingdom, and Slovakia, and it also does a lot of business in Austria, Germany, and Switzerland. Digicode works with a range of entities—from startups to Fortune 500 companies—to fix technical and digital problems.

During the first few months of the war, Maslii didn’t have time to eat, sleep, or see his family as he was so busy on the



phone trying to manage the logistical fallout and assure clients they would continue to work. Clients were understanding and offered much-needed patience as the company adjusted to a devastating new normal. Yet despite their sympathy, Digicode worked hard to boost its productivity quickly to ensure it maintained standards and retained customers.

Growing Again

The country's economy shrank by a staggering 29 percent in 2022. Yet thanks in part to the courage and flexibility of companies like Digicode, it grew again by 5.3 percent in 2023. Ukrainian officials hope it will grow by another 4.6 percent this year, although it is currently highly dependent on financial assistance from the West as well as Ukraine's small and medium-size businesses.

However, not all entities are as flexible as Digicode and others in the future technologies sector. Companies located close to Russia or the occupied territories are at particular risk. Another challenge comes

from the loss of manpower—millions of Ukrainians have fled abroad as refugees. They have taken their expertise with them, and they earn money, pay taxes, and spend abroad. It will take time and a lot of investment for the economy to recover, and significant opportunities coupled with security assurances to attract people back home.

Maslii says Digicode has seen a 40 to 50 percent cut in profits compared to 2021 due to the extra costs incurred by adjusting their operations to be functional during the war. Because male Ukrainians of fighting age, such as Maslii himself, are no longer allowed to travel outside of the country, client relations took a big blow, so much of these extra costs have focused on hiring teams abroad, an important part of attracting and retaining customers. Digicode also offers a lifeline to staff who have been drafted into the military by continuing to pay their full salaries, supplementing their government wages.

Digicode has had to make sure its workers across Ukraine have the infrastructure they need to work under difficult circumstances, including regular Russian attacks on infrastructure. They have installed Starlink high-speed satellite internet boxes to ensure they always have an internet connection, and generators to be able to work through power cuts. Investing in the business at such a difficult time, instead of focusing on profits, was a choice and one they believe will pay off in the long term.

“The hardest part is knowing [the war] will be long term,” said Maslii, who believes Ukraine will experience a boom in development, modernization, and foreign investment once the fighting is over. “We had to decide what our goal is and what is important, and for us it is not profit. We invest our money instead so we can remain sustainable.”

MAX MASLIJ, co-founder of software development and consultancy firm Digicode, says “the hardest part is knowing [the war] will be long term.”

IP



Social Recovery and Human Capital

Rebuilding Ukraine in a way that is socially inclusive is an important element in the country's reconstruction. It entails addressing the deadly inheritance of land mines as well as continued advances toward gender equality.

“A Country Worth Living In”: Prioritizing Ukraine's Social Recovery

A clearer understanding of what is meant by social recovery is an important precondition to ensure it stays a policy priority.

By Julia Langbein and Gwendolyn Sasse

In April 2024, the latest Rapid Damage and Needs Assessment (RDNA3) released by the government of Ukraine, the World Bank Group, the European Commission, and the United Nations put the total cost of “reconstruction and recovery” in Ukraine over the next decade at \$486 billion (€450 billion). It was also estimated that Ukraine needs about \$15 billion in 2024 alone to support the private sector, restore housing, infrastructure, and services. Of this amount about \$9.5 billion remained unfunded at the time of publication.

The United Nations further estimates that as of October 2023, there were 3.7 million internally displaced persons (IDPs) and about 6.3 million displaced Ukrainians abroad. At least 14.6 million individuals were identified as being in need of healthcare and other services.

These drastic figures begin to map the dimensions of the (post-)war needs in Ukraine. Addressing these needs is made even more difficult because of the uncertainty over the war's end. The Ukraine Plan, a comprehensive reform plan for

the next four years put forward by the Ukrainian government and endorsed by the European Commission, makes the following commitment: “Defense, security, and social care remain top priority spending areas on the back of limited revenue mobilization, considering the baseline economic situation.” The guiding principles to address this complex trias are listed as “financial sustainability, inclusiveness, transparency, and accountability” for the entire timeframe of the plan.

Lacking Vision

Although the Ukraine Plan, the European Union's Ukraine Facility, and statements by different national and international stakeholders regularly underline the importance of the social dimension of recovery, it is usually listed among many other pressing priorities or subsumed under “human capital” without a vision for prioritization and necessary trade-offs inherent in the wider recovery effort.

Moreover, the envisaged close link between overall recovery and the EU accession process is no automatic guarantee for



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prioritizing this issue area, given the EU's limited social policy acquis and the lessons learned from the accession of Central and Eastern European states.

Preparing for EU accession incurs costs on the side of the candidate countries, including social ones, particularly when fiscal shifts adversely affect social spending. These social costs can become the basis of party mobilization and populist politics, undermining social cohesion, democracy, and modernization. The specific (post-) war context creates fertile ground for these challenges to flourish and necessitates highlighting this policy field throughout the recovery process.

What Is Social Recovery?

What do we mean by “social recovery”? Recovery is about physical reconstruction (above all of infrastructure and housing)

but also encompasses “all initiatives that seek to repair the damage done by the conflict ... to political, economic, and social structures,” according to the authors of the “Rebuilding Ukraine” policy brief published by the German Institute of Development and Sustainability (IDOS). This understanding of recovery is also reflected in the Ukraine Plan: “Reconstruction means the restoration of destroyed or partially damaged assets, recovery means the restoration of activities.”

In the Ukraine Plan a decision was made to subsume both under the term “recovery,” but in the plan and elsewhere the terminology remains vague when specific sectors or issues are addressed. This imprecision hinders the definition and implementation of social recovery measures. Drawing upon concepts of social recovery used in the context of the Ukraine Recovery

Children are acknowledged in the Ukraine Plan as one of the vulnerable groups: Here, a teacher prepares a classroom at the first heavily fortified underground school amid Russian attacks on Kharkiv in April 2024.



Conference (URC) in June 2024 in Berlin, related discussions in the Ukraine Plan, and relevant academic contributions, we suggest conceptualizing social recovery in terms of objectives, principles, and fields of action:

- **Objectives:** According to disaster recovery literature, social recovery aims at achieving “desired levels of social well-being, quality of life, sense of place and belonging, and civic engagement (...) for those affected by disasters” (Kathleen Tierney and Anthony Oliver-Smith, “Social Dimension of Disaster Recovery,” 2012). From this perspective, social recovery entails socio-economic, identity-related, and political dimensions.

The URC website refers to “the human dimension” rather than social recovery but captures its gist poignantly: “Ukraine should be turned into a country worth living in.” The section on “foundational sectors” in the Ukraine Plan comes closest to a definition of social recovery and highlights its overall importance: “The areas of the foundational economy, seen as platforms for providing essentials for all citizens, are education, healthcare, and social services.” They are defined as “important to build up the labor force, incentivize the return of Ukrainians abroad, and improve the general quality of life.”

- **Principles:** The major principles guiding social recovery are access, inclusiveness, and participation. Ukraine’s social structure is currently in disarray, with displacement being the most apparent aspect of this reordering. Thus, recovery is guided by commitments to support social cohesion and inclusiveness, as these are preconditions for state and democratic resilience. Social cohesion is closely related to the restoration and possible transformation of social relationships to

overcome preexisting intra-societal structural inequalities that are often increased by disasters.

Imprecision hinders the definition and implementation of social recovery measures

Inclusiveness relates to the need to address the “society as a whole” both at home and abroad. In view of mass internal and external displacement, enabling return is just as important as ensuring social recovery at the current places of residence in Ukraine and the reality of a “transnational Ukraine.” The latter is preconditioned on acknowledging that a quick and large-scale return is unrealistic. It is therefore key to involve Ukrainians residing abroad in the socio-economic, identity, and political dimensions of social recovery.

Creative policymaking in this regard needs to address legal status issues, which should not stand in the way of moving between a new place of residence and Ukraine. The Ukraine Plan highlights access to schools, healthcare (including specialized care for trauma-related issues), social housing and utilities, mentions particularly vulnerable groups (including war widows and widowers, children, the disabled, the elderly), and adds cultural policy as a means “to foster social healing and cohesion.” Building on the current widespread wish of Ukrainians abroad to support Ukraine, they need to be enabled to invest skills and other resources in the short and medium term. Thus, “returning” to Ukraine comprises different forms of engagement, some of which may lead to a permanent relocation.



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• **Fields of action:** The following are particularly relevant when it comes to Ukraine's social recovery.

– *Socio-economic dimension:* Since the start of Russia's full-scale invasion, the number of people with disabilities, including veterans, has been increasing rapidly. Furthermore, 10 percent of Ukraine's housing stock and 1,443 buildings belonging to 177 scientific institutions have been damaged or destroyed, according to World Bank and UNESCO figures, and there have been at least 1,552 attacks on health infrastructure, impacting health providers, supplies, facilities, warehouses and transport, including ambulances. Further, up to 30 percent of Ukraine's land might be contaminated by mines and unexploded ordnance.

Ukraine's resilience amidst war is closely tied to an inclusive civic identity built on social networks and trust. Social recovery requires a high degree of societal cohesion

Special emphasis has to be put on measures that have a security-improving effect and focus on the basic needs of the population (demining, housing, education, healthcare, and the provision of social services), in particular those of vulnerable groups and the most directly affected municipalities and regions.

Much of this is linked to physical reconstruction and access. It is important, however, to immediately link physical reconstruction efforts and access to social

services to more long-term strategic changes in Ukraine's education or healthcare system that help further socio-economic resilience. Short-term measures have to actively enable a medium-term approach focusing on households, neighborhoods, and communities; the public and the private sector; and both civil society and government actors from multiple levels of governance.

– *Identity dimension:* Ukraine's resilience amidst war is closely tied to an inclusive civic identity built on societal networks and trust. Social recovery also requires a high degree of societal cohesion but is likely to come under pressure both from identity issues and questions of who did what during the war or who was inside or outside the country.

A consistent focus on vulnerable groups, transparent and inclusive policy framing, and bottom-up involvement of a variety of societal actors are among possible safeguards to make sure that social recovery measures, ranging from the rebuilding of housing to the rebuilding of important cultural sites and the reactivation of important events and rituals strengthen a community's sense of itself. This dimension hinges on the principles of inclusiveness and participation.

– *Political dimension:* The institutionalization of an inclusive approach to recovery and the prioritization of social recovery will have immediate implications on the reconfiguration of the political landscape of (post-)war Ukraine. Identification with and participation in the recovery process supported by a variety of international actors, including the EU, is a precondition for democratic resilience, including strengthening civic engagement, the consolidation of political parties, an increase of trust in parliament and the government, and continued and "lived" decentralization.

Social Recovery and EU Accession

The EU accession process is about incentivizing and enabling the country to meet the EU's political, economic, and administrative accession criteria. These include stable institutions that guarantee democracy, the rule of law, human rights, and the protection of minorities; a functioning market economy, and the capacity to withstand the competitive pressures of the EU single market; and sector-specific requirements for aligning state policies and the economy with the legal obligations of EU membership.

Unlike for economic policies and political reforms, however, the EU leaves most competencies in policy fields related to social recovery to the member states. Systematically linking the processes of recovery and EU accession can (but does not automatically) provide synergies. Through this link social recovery would be anchored in the EU accession process, while also giving the social aspects of recovery more emphasis and scope for strategic development.

The EU accession process incentivizes Ukrainians to implement institutional reforms. In turn, donors trust in functioning institutions and the rule of law would help to mobilize much needed private (foreign) investment, including for social recovery measures. The EU accession process provides the EU institutions, member states, and civil society actors in Ukraine with leverage to maintain the political and societal momentum for reforms.

This momentum is a precondition for the governance of social recovery according to the “build back better” principle. Social recovery measures will also be financed under the Ukraine Facility (Pillar I in particular), the EU's financial instrument to support Ukraine's recovery and

accession path. Here, prioritization and sequencing could further social recovery and create synergies with other aspects of recovery. In the short-term, providing basic services for vulnerable groups should have priority, but in the medium to long term, social and economic recovery have to go hand in hand.

Social recovery is essential for the progress of Ukraine's EU accession process. Otherwise the country will not be able to meet the accession criteria

In sum, social recovery is not only key for repairing the damage inflicted by Russia's war of aggression to Ukraine's political and economic structures. Social recovery is also essential for the progress of Ukraine's EU accession process. As for the socio-economic dimension of social recovery, it is clear that without the provision of basic social services and strategic reforms in education and health-care, Ukraine will not be able to meet the economic accession criteria. Along the identity and political dimensions of social recovery, intra-societal trust and inclusive participation in recovery processes, including the large number of internally and externally displaced Ukrainians, are one of the most powerful safeguards of Ukraine's democratic development.

Thus, to turn Ukraine into a country worth living in, social recovery has to become and remain a priority at the intersection of Ukraine's recovery and EU accession process. **IP**

Taking “Mine Action” Humanitarian demining is a key factor in Ukraine’s recovery and reconstruction. The country can make good use of its knack for innovation and of its human capital.

By Rory Logan with Ihor Bezkaravainyi and Oleh Stoiev

As Ukraine enters its third year of war, it has become, according to the United Nations, perhaps the most heavily mined country in the world. Initial government figures estimated that an area more than twice the size of Austria has seen, or is still experiencing, active combat operations and is potentially contaminated with mines and other “explosive ordnance.”

Even as Ukraine fights for its survival, the government faces the practical consequences of dealing with landmine and explosive ordnance contamination in de-occupied territories.

The term “mine action” refers to an organized series of activities, including humanitarian demining, which aim to reduce the social, economic, and environmental impact of explosive ordnance. It is an element of humanitarian relief that has been in place since the signing of the Anti-Personal Mine Ban Convention (APMBC) in 1997.

Mine action is a prerequisite for the protection of civilians, reducing casualties and violence during conflicts, as well as a

precursor for post-conflict reconstruction and broader sustainable development objectives. To ensure safety, efficiency, and effectiveness demining operations are carried out using the International Mine Action Standards (IMAS), which are adopted by the United Nations and can be tailored to specific national contexts.

Past Experience

Ukraine has been managing explosive ordnance contamination since World War II. Teams of experts have long been integrated into Ukrainian government structures, such as the Ukrainian State Emergency Services (SESU) and State Special Transport Services (STSS), though not in anywhere near the numbers needed today.

The Mine Action Law of 2019 set out state structures that work under the direction of an inter-ministerial National Mine Action Authority (NMAA), chaired by the minister of defense. Between 2014 and 2022, the demining capacity in Ukraine included four or five humanitarian demining organizations and existing SESU and STSS teams.



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Then the second wave of Russia’s invasion began on February 24, 2022 with military forces that initially occupied significant parts of the country, including parts of Kyiv and surrounding areas. While Ukrainian forces retook the vast majority of occupied territory within weeks, fierce ongoing fighting has left massive parts of Ukraine potentially contaminated.

The UN Human Rights Monitoring Mission in Ukraine (HRMMU) has recorded at least 31,366 civilian casualties since February 2022 (10,810 killed, 20,566 injured) while the actual figures are likely higher since it is impossible to establish exact numbers of casualties in cases like the city of Mariupol. The vast majority of casualties have been as a result of mines and explosive ordnance (EO) or explosive weapons with wide area effects.

A Comprehensive Strategy

Early estimates by the World Bank indicated that the cost of demining could reach over \$34 billion. Since the full-scale invasion, Ukraine has attracted \$707 million to support demining operations. It was within this context that humanitarian demining was placed as one of the government’s five top priorities for the rapid recovery of Ukraine and in March 2023 the Cabinet of Ministers assigned First Deputy Prime Minister and Minister of Economy Yulia Svyrydenko to lead the country’s demining efforts. One the first priorities has been to establish a comprehensive National Mine Action Strategy, a draft of which

There have been at least 31,366 civilian casualties, many a result of mines and explosive ordnance

was developed in late 2023 and approved by the NMAA in February 2024. The strategy seeks to advance the following broad objectives over a 10-year timeframe:

- **Reduce the impact of contamination by 80 percent in 10 years to enable safe return, reconstruction and resettlement, and facilitate economic activity.**

Establishing the true scale of contamination—the specific areas where evidence of physical contamination can be found and documented—is necessary for planning an effective response. The true contamination figures are always far smaller than the total conflict area. Ukraine has surveyed an area larger than Slovenia in under a year, identifying 322 square kilometers of actually contaminated land in the process (and discounting the rest, which can be put back to productive use). Despite being a small percentage of the total this is a very significant area that will require further technical intervention using different operational methods such as manual deminers, demining machines, and mine detection dogs.

- **Protect the population by promoting safe behavior and reducing the number of accidents, while ensuring that EO victims have access to appropriate services and opportunities.**

Since 2022, a significant focus has been placed on explosive ordnance risk education aimed at teaching the civilian population appropriate behavior when encountering explosive ordnance in their community. SESU and its partners have leveraged traditional methods as well as digital media and other platforms to implement this essential lifesaving endeavor, reaching well over a million people since the invasion.

Victims of mines and explosive ordnance are entitled to medical, psychological, professional, and social assistance



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as per Ukraine's Mine Action Law. While a comprehensive response is being developed in line with the strategy, one of the government's early policies has been to use existing web resources for digital accessibility, in order to support planning and coordination by central and local authorities.

• ***Institute a strengthened and refined national mine action architecture that enables effective coordination, management, and oversight of field operations.***

The institutional architecture established by the Mine Action Law was designed to deal with a much smaller problem generally confined to the Donbas region, and currently it is functional but seriously overstretched.

Ukraine is a hub for innovation and new technologies in the field of demining. The country has all the potential to initiate, trial, and develop more innovative solutions, tools, and approaches

Ukraine faces a problem of an entirely different scale: In the future further refinement and streamlining of institutional structures, systems, and processes will need to be considered as the actual number of government staff grows to manage the increased demining capacity. As of May 2024, 39 demining organizations had been certified, with a further 50 in the process of certification.

One of Ukraine's main initiatives is to empower an emerging commercial mar-

ket for demining to drive competition and further improve operational efficiency. This will mean a significant increase in the number of Ukrainians employed and trained in demining roles. A pilot project that focuses on agricultural production includes state-funded support to farmers, who can be compensated for up to 80 percent of the cost of demining their land.

In a certain sense the scale of the problem might be turned into an opportunity. Finding employment after fighting a war can often be a problem for veterans. Injured veterans, as well as civilian mine victims may already be in a position to support demining in liberated territories, even as the fighting continues.

In the medium term, the government should be able to implement specific programs to include veterans in an even further expanded demining effort once demobilization is possible.

Ukrainian Innovation

Ukraine is currently a hub for innovation and new technologies in the field of demining. The country has all the potential to initiate, trial, and develop more innovative solutions, tools, and approaches than the global mine action sector has grown in the previous 10 years.

Among the prerequisites for such growth is the technical capacity of the state, the availability of vast spectra of data, and extensive technical support. New initiatives range from tests involving sensor arrays mounted to unmanned drones, lightweight robots fitted with ground penetrating radar, and local manufacturing of new demining machines and equipment, to utilizing artificial intelligence to create data-driven prioritization processes.

There is also the need to further explore new and innovative financial mechanisms to help secure sufficient capital to fund



According to the United Nations, Ukraine is perhaps the most heavily mined country in the world: Here a military sapper inspects a field for explosive devices while demining a field in the Kherson region in April 2024.

this emerging demining market over the next decade and implement the funds effectively.

For every solution that drives meaningful change there will inevitably be several that fail. Despite this, the sheer focus on this issue is a testament to tangible and practical ways human capital is already being leveraged to support recovery and reconstruction.

As the most mine-contaminated country in the world, Ukraine is facing a challenge that not only affects its entire society but also impacts regional and even global food security. Together with economic and safety matters, these considerations require significant additional investment

in demining to ensure that the impact of the contamination is mitigated as much as possible in the shortest timeframe. A proper technical assessment may make quick work of much of this effort, while the rest will require painstaking work over many years.

Either way the solution lies in leveraging the country's greatest resource: its people. Though the task ahead is huge there are already signs that Ukraine's innovative, highly educated, and digitally literate society is rising to the challenge. Now it is a matter of whether the rest of us will support and sustain the support to this vital aspect of Ukraine's recovery effort, which is in both the state's and global interests. **IP**

Female Leadership in the Context of War and Beyond

Russia's aggression has led to Ukrainian women playing an even bigger role, following improvements in gender equity in recent years.

By Iryna Solonenko

Ukraine has not been considered a country that enjoys a high level of gender equality and it has not ranked highly in respective indices. However, in recent years the situation has improved significantly. Ukraine has adopted a number of important policy instruments that have created a more favorable environment for women. Pressure from civil society and international partners has been instrumental in this respect. Public opinion polls show that Ukrainians have overcome stereotypes on gender-related roles, while the importance of women's empowerment and female leadership are now part of the public conversation.

Since the war began in 2014, and especially since Russia's full-scale invasion in 2022, there have been new challenges for women as primary caregivers for children. Yet, on the other hand, the war has encouraged women to play a stronger role in different spheres of social life. Be that politics, local development, entrepreneurship, civil society, or the military, women leaders do make a difference and serve as role models.

On average, women still enjoy fewer opportunities than men in Ukraine. According to the Global Gender Gap Report 2023, Ukraine ranks 66th among 146 countries in the world. However, Ukraine ranked 81st in 2022 and 103rd in 2021 in the same survey, indicating that the situation is improving. When it comes to individual indicators, Ukraine is doing worst in "political empowerment" (87th), compared to slightly better results in "participation and opportunity" (55th), "educational attainment" (56th), and "health and survival" (45th).

Recent Improvements

Today, 72 percent of the people registered as unemployed in Ukraine are women. The salary gap between men and women stood at 18.6 percent at the end of 2023. This is a smaller gap than in the previous years; however, the lack of childcare and the outdated labor code remain a problem.

Ukraine is seeking to rectify these issues and has adopted a series of policies to that end, including the State Strategy for Ensuring Equal Rights and Opportunities



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for Women and Men (adopted in 2022), the National Strategy on Human Rights (adopted in 2021, it specifically aims to ensure gender equality and equal opportunities), the National Strategy for Bridging the Gender Pay Gap (with the target of reducing the gender pay gap to 13.6 percent by 2030), and the National Action Plan on the implementation of the United Nations Security Council Resolution 1325 on Women, Peace, and Security until 2025.

Until 2017, a law enacted in 1993 listed some 450 dangerous (but often well-paid) professions that women were not allowed to occupy. In practice women worked in some of these proscribed professions, yet their documents did not show this, and they were paid less as a consequence. For instance, female snipers in the armed forces were listed as cooks. The abolishment of this legislation as a result of pressure from activists was a great improvement. And finally in 2022, Ukraine also ratified the Istanbul Convention on preventing and combating violence against women and domestic violence.

The full-scale invasion has had severe implications for women. As of 2024, more than 6 million people have left Ukraine, most of them women with children and elderly relatives. According to OECD data, at least 70 percent of adult Ukrainian refugees are women, and in some host countries their share exceeds 80 percent. It is also estimated that the majority of the more than 5 million internally displaced people within Ukraine are women.

Due to the war women face an increased care burden. The destruction of infrastructure such as educational institutions, safe transportation, and childcare make it difficult for women, especially those who are heads of household, to fully participate in professional terms. Domestic violence has also reportedly increased.

Some deficiencies in Ukrainian legislation have forced women who are deputies in the locally elected authorities and whose children are staying abroad with other relatives to resign from their positions. This is due to government restrictions on traveling abroad for public officials. Current legislation also bans Ukrainian citizens who have stayed abroad for more than 90 days from running in elections.

At the same time, the war has created a situation whereby many women have felt the need to take initiative, which has strengthened female leadership in different dimensions. Today many women occupy top decision-making positions in local authorities, run coordination support centers, which were established in 2023 in all regions and at the local level, and lead various civil society initiatives. Women and women-led organizations are playing a crucial role in providing humanitarian aid, supporting their communities, and sustaining the economy.

Political Participation

When it comes to the representation of women in politics, Ukraine is still behind most European countries (according to the Global Gender Gap Report 2023, it ranks 87th among 146 countries). However, the situation has been improving in recent years.

In the current Ukrainian parliament, the Verkhovna Rada, elected in 2019, women constitute 21 percent—a significant improvement when compared to earlier parliaments elected in 2007 (8 percent), 2012 (10 percent), and 2014 (12 percent). However, it is still below the European average of 29.6 percent.

Moreover, while women make up 75 percent of all civil servants in Ukraine, only 33 percent occupy senior decision-making positions. The situation



Since 2018, women are allowed to occupy all positions in the armed forces on equal footing with men: This photo shows an Ukrainian servicewoman walking down a trench in the Donetsk region in April 2022.

in the Verkhovna Rada is similar. In the parliament elected in 2014, two deputy chairpersons were women; in the current parliament there is one woman among three deputy chairs. Leaders of two of the eight parliamentary groups are women; and the chairpersons of five out of 23 parliamentary committees are female. Out of 21 ministers five are women. Three out of five vice prime ministers are women. Overall, the female share is 25 percent in the cabinet—a low figure, yet much better than in the previous governments. There are currently 29 female and 69 male deputy ministers.

There are no women in the Headquarters of the Supreme Commander-in-Chief, where military decisions are taken, and there is only one woman out of 10 deputy heads of the Office of the President of Ukraine. Given the central role that the latter institution has assumed in the decision-making process and exacerbated by

the war, this is not a satisfactory situation.

Moreover, in 2019 a new electoral code was adopted to secure that women comprised 40 percent of those elected to political office. It was first put into practice for local elections in October 2020 and, as a result, almost 38 percent of deputies elected to local authorities were women. The figures ranged from 28 percent women for regional councils to 42 percent for village councils, indicating that women tend to play a greater role at the local level.

In the Military and in Business

With the beginning of the full-scale invasion the number of women who joined the army increased by 40 percent. By the end of 2023, more than 62,000 were serving in the military, including 43,000 on active duty—almost three times more than in 2014. Over 5,000 female soldiers are stationed at the frontline. This is one of the highest shares of women in the army

globally, including among NATO member states. The number of female officers has increased sevenfold compared to the period before February 2022.

In 2018, legislation was passed that enabled women to occupy all positions in the armed forces without any restrictions and on equal footing with men, which aligns with NATO's standards. These changes were possible due to the active advocacy work of civil society initiatives. One of them, called the "Invisible Battalion," which was launched in 2015, was particularly instrumental.

Women also play a prominent role in the economy. With their husbands off fighting, women become the breadwinners for their families. But in many cases women start businesses because they want to help their communities; they pay taxes and create jobs. There are a number of associations and networks for women entrepreneurs that offer support and a number of governmental programs were launched, some created in cooperation with international donors, to encourage female entrepreneurship.

Over 43,000 female soldiers are on active duty. This represents one of the highest shares of women in armies globally, including NATO member states

And since the start of Russia's full-scale invasion, every second business in Ukraine has been established by women. In 2023 alone, Ukrainian women led the creation of over 10,000 new companies.

Female Leadership

Female leadership has become an important topic in Ukraine—in governmental policies, due to numerous international programs, and in the wider society. There are regular conferences in Ukraine, where the topic is being discussed.

On the one hand, female leadership is about policies and environment, which create equal opportunities and encourages women to take the initiative. On the other hand, it is about personal stories of women who can serve as role models.

Behind the figures stand impressive and inspiring personal stories of women who are transforming Ukraine. Telling these stories and publicizing them has become an important instrument of encouraging female leadership in Ukraine. There are numerous websites that do so, which are part of various projects supported and implemented by international organizations and embassies of different countries in Ukraine. Ukrainian civil society initiatives and media regularly report on these. One of the most recent examples was a special issue of the influential weekly *NV*, which appeared in May 2024 and presented 50 female leaders in Ukraine from the military, civil society, public service, and business.

While there is a need to improve a number of policies in order for women in Ukraine to enjoy the opportunities they deserve, Ukraine seems to be firmly on track to achieve this. This trend will only get stronger in the future. It is a part of the European integration agenda, which Ukraine as an accession country takes seriously; and the war situation demands that women play a stronger role in different spheres of social life and in their communities. In short, Ukraine's recovery can only succeed if it is inclusive. Women will play a driving role in this process. **IP**

95

The Ukrainian IT and technology sector has shown remarkable resilience: According to the Ukrainian IT Association, only 2 percent of the 5,000 Ukrainian tech companies that existed prior to Russia's full-scale invasion had to cease operations due to the war. **And 95 percent of all IT companies managed to maintain their contracts and continue business relations with their Western clients despite the difficulties presented by the Russian offensive.**

In 2018, Ukraine passed legislation that granted women the same status as men in the armed forces. **According to official statistics, more than 62,000 women are currently serving in the army and around 5,000 are operating in combat zones.**

62,000

According to a poll by the Razumkov Centre published in January 2024, 84 percent of Ukrainians support EU membership. The 25th nationwide survey by the Rating group, conducted at the end of November 2023, found a similarly high number—78 percent—in favor of EU membership. According to the European Commission, 66 percent of EU citizens agreed that the EU should provide continuous support to Ukraine on its path to EU accession.

84

500,000,000

The EU will provide €90 million to the International Finance Cooperation (IFC) to boost investments in Ukraine's private sector. **This is expected to result in investments exceeding €500 million, spread across various sectors, including essential infrastructure and goods production.**

The number of partnerships between German and Ukrainian cities has more than doubled since February 2022. **According to the Association of German Cities, there are currently more than 200 partnerships linking German and Ukrainian towns.** Relationships between cities not only establish a framework for cooperation in fields like ecology, education, or tourism, but also are a path to providing humanitarian and financial assistance.

200

14,600,000

Russia's attacks on homes and infrastructure have been causing a humanitarian crisis, making 14.6 million people in Ukraine reliant on humanitarian assistance in 2024.

Ukraine is now considered the largest minefield in the world with as many as 2 million mines scattered across 174,000 square kilometers, almost a third of Ukraine's total area. The majority were planted by Russian forces, but Ukraine's defenders have been placing them in some areas as well.

174,000

20

If Ukraine joined the EU after its territorial integrity was fully restored and the traces of war were cleared from all areas, it would be home to 20 percent of the EU's agricultural land.

As a result of Russia's full-scale invasion in February 2022, 3.7 million Ukrainians have been internally displaced, and 6.5 million Ukrainian refugees have been recorded globally. In total, more than 10 million people have been forcibly displaced, roughly one-fourth of Ukraine's total population. Poland and Germany are hosting the most refugees.

10

152,000,000,000

Direct damage in Ukraine has now reached almost \$152 billion. The most affected sectors are housing, transport, commerce and industry, energy, and agriculture. Ten percent of housing has been damaged, which also prolongs the forced displacement of Ukrainians. The Ukrainian government met some urgent needs with a \$1 billion disbursement in 2023 for the emergency recovery, repair, and reconstruction of damaged buildings.



Keeping It Local

Thanks to reforms according to the subsidiarity principle undertaken during the past decade, municipalities have taken over important government tasks. They will be playing a major role in Ukraine's recovery and reconstruction.

Why Local Government Is Central to Ukraine's Resilience and Recovery

As the war continues, Ukraine's municipalities have been instrumental in restoring and rebuilding communities.

By **Iain Mackie and Bastian Veigel**

Since the Euromaidan “Revolution of Dignity” in 2014, Ukraine has transferred a swathe of rights, responsibilities, and resources to local self-government (LSG), a policy pursued by successive governments irrespective of their political make-up. This represents a clean break with the Soviet-style centralized governance of Ukraine's past, ensuring local public services are more efficient, increasing accountability and strengthening democracy—all with substantial support from the international community, especially the EU and the G7 countries.

As a result, municipalities have taken over major tasks, based on the subsidiarity principle that decisions should be made at a level as close as possible to the citizens. They are responsible for over 30 percent of all public spending, including 75 percent at the sub-national level. When the European Commission issued its opinion on Ukraine's application for membership in June 2022, it lauded decentralization as “one of the most impactful and successful reforms” and a “crucial enabler of social and economic development.”

The reform has also made Ukraine more resilient. Municipalities have been at the forefront of Ukraine's resistance against Russia's aggression and not just through the local territorial defense system. They have contributed significantly to the stability of the country.

The Scale of the Challenge

Since February 24, 2022, Ukraine has suffered mass casualties and devastating loss of life, severe hardship for its citizens, huge displacement of the population, and massive infrastructure destruction. But life also goes on. People still need homes, healthcare, education, employment, and essential services such as energy, water, sewerage, and waste collection. While Russia has been waging its illegal war, Ukraine has been rebuilding its communities by repairing critical infrastructure and restoring services.

By value (total cost), the main recovery burden falls to the state administration at central and regional levels: power generation and grids, major transport systems and networks (highways, airports, ports,



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railways), reservoirs, hospitals, and so on. This is critical to the nation's prosperity and fundamental to functioning communities. Most of these projects of national significance are large, expensive, and sophisticated to prepare and implement, but there are also comparatively few of them.

By volume (total number), most of the public buildings and structures fall under the legal competence and ownership of Ukraine's 1,470 municipalities, including kindergartens, schools, healthcare clinics, social housing, local roads, local water supply and sewerage systems, waste management, and utility networks.

The Role of Municipalities

Ukraine faces the dilemma of balancing decentralization (the empowerment of LSG that has enabled municipalities to become valued "first responders" and keeping communities cohesive) and recentralization (the imposition of "command and control" under martial law to facilitate an effective response to the invasion).

Strong municipalities remain a great achievement of European history and are an important element of our political culture. This is evidenced by the European Charter of Local Self-Government, which has been adopted under the auspices of the Council of Europe and has been signed by every EU member state as well as Ukraine. Local problems should be solved primarily at the local level. Ukraine's municipalities have been living this vision, and none more so than when faced with the impact of occupation and attack.

Grassroots political leaders possess insights and information about the state-of-play regarding actual damage and local resources. They are also accountable to residents for their spending decisions—whether, what, and when to rebuild or replace.

Since the war started, municipal administrations have taken the initiative and used their ingenuity to find resources to repair, reconstruct, and replace much-needed infrastructure. As well as their own budgets, they have channeled bilateral donor contributions and charitable donations; welcomed in-kind support from volunteers and civil society organizations; and applied for grants and loans from central government and international financing institutions. However, these achievements in identifying ad hoc sources and resources are dwarfed by the vast scale of expenditure required, which demands a systemic solution.

A Unique Opportunity

On February 29, 2024, the EU adopted the Ukraine Facility Regulation, committing up to €50 billion for the period of 2024 to 2027 to Ukraine's reform, recovery, reconstruction, and modernization. While the cost of putting right Russia's destruction is far greater, this is still a huge contribution. It is also significant in the context of the EU's agreement to open accession negotiations on December 14, 2023, as Ukraine has an opportunity to demonstrate it can manage EU funds on a scale similar to the Cohesion Policy instruments for Member States, such as European Regional Development Fund (ERDF) and the European Social Fund Plus (ESF+).

The Facility specifies that at least 20 percent of "non-repayable financial support" under Pillar I (Ukraine Plan), equivalent

*Strong municipalities
are a great achievement
and an element of
Europe's political culture*



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Grassroots political leaders possess insights about the reality of actual damage and local resources: Here, municipal workers remove debris after a Russian missile attack on Dnipro in April 2024.

to just over €1 billion, should be allocated to “sub-national authorities, in particular local self-government.” It makes the case for designing a system that ensures municipalities are integral to the reconstruction process, not just stakeholders in it, making sure that no one is left behind, by building back bottom-up.

Given the sheer number of buildings and structures that have been destroyed or damaged, municipalities should strategically prioritize and sequence the restoration of their infrastructure to reflect local requirements and conditions. In line with local democratic principles, municipalities in dialogue with their citizens know best what infrastructure is needed and in what order. This also aligns neatly with the direction of the EU’s Cohesion Policy, which increasingly emphasizes integrated territorial approaches to sustainable socio-economic development.

However, this requires massive enhancement of administrative and absorption capacities in municipalities and regions. The local level requires the resources and expertise to develop recovery strategies, to prepare and manage multiple (infrastructure) projects, and to engage stakeholders throughout these processes. This is especially challenging for municipalities with depleted income due to budgetary changes and a smaller socio-economic base, alongside heightened demand for services from remaining and returning residents. The longer-term prize, however, is that they will be better prepared for EU accession.

This capacity can also be built through collaboration with matching EU counterparts. Municipal partnerships are relationships between local self-governments with similar characteristics in one or more countries that can achieve results, and add

unique value beyond those a single municipality could realize alone. Such cooperation is a valuable two-way, or multi-way, instrument for sharing practical know-how.

Over 30 percent of Ukrainian municipalities currently have an international partnership, with the total number of partnerships exceeding the number of municipalities. A successful partnership is both a win-win and “a long game,” a key instrument to increase competences and capabilities for Ukraine’s recovery, reconstruction, and modernization on an ongoing basis among local actors on a European or even global scale.

One such example of a long-term commitment is the network of German-Ukrainian municipal partnerships, supported since 2014 by the Service Agency Communities in One World (SKEW) of Engagement Global, on behalf of Germany’s Federal Ministry for Economic Cooperation and Development. Currently exceeding 200 in number, many arose due to the war. The SKEW support includes networking, consulting and promotion activities, and funding for partnership projects and municipal staff. Similarly, the multi-donor program U-LEAD with Europe (founded in 2016) is active in stimulating and facilitating EU-Ukraine partnerships through its Bridges of Trust as does the Cities4Cities initiative under the patronage of the Congress of Local and Regional Authorities of the Council of Europe.

There is now considerable and growing interest in forging new ways of working that go well beyond the traditional “town-twinning” arrangements of friendly relations and cultural exchanges. Initially motivated by a sense of solidarity, such partnerships are migrating from initial introduction and information sharing, through identifying the potential for cooperation (mutual interests and compatibi-

lities), to engaging in active collaboration and joint projects.

Next Steps

Ukraine’s public administrations—central, regional, and local—face four fundamental challenges in the coming period.

First, they must remain resilient in the face of the ongoing aggression and pursue recovery in a way that creates and preserves social cohesion. This is arguably the most critical task and the one where local self-government is best placed to provide essential services and integrate residents, returnees, and internal refugees.

Second, optimizing their respective competences at every level, local governments must ensure that productive and social infrastructure is rebuilt back better and coherently, as local buildings and structures rely on utilities and networks that are regional, national, and international in scale.

Third, they must prepare for EU accession with regards to both process (EU acquis harmonization, chapter screening, and negotiation) and capacity (demonstrating the ability to engage with the pre-accession process and the readiness for post-accession implementation of the obligations of EU membership).

Fourth, they must maintain the momentum of decentralization, based on the principle of subsidiarity that has sustained Ukraine in this time of crisis and will be crucial in its EU future, by completing the constitutional and legislative reform agenda, and ensuring local finances are robust, sustainable, and predictable.

These are multi-level challenges of governance. They require a strong center, an effective regional tier, and empowered municipalities, based on a local self-government system acting for and with Ukraine’s citizens.

IP



Oleksandr Syenkevych

Mayor of Mykolaiv, southern Ukraine

1.

Please describe a typical day for you as mayor since the start of Russia's full-scale invasion.

Since February 24, 2022, my working day has become anything but typical. Throughout the day, I attend various meetings with the heads of enterprises to monitor the vital activities of our city. We analyze our progress and set new goals. Additionally, I participate in online meetings with international partners who are supporting Mykolaiv. We discuss ways to recover and provide assistance to our frontline city. The most challenging days for Mykolaiv are those when the Russian aggressor shells the city. We go to the affected area to determine the extent of the damage and assess what kind of help is needed.

2.

What are the most pressing needs of the citizens of Mykolaiv today?

The lack of drinking water is the most urgent. The water main was destroyed by the Russian aggressor in 2022, leaving the city without a centralized water supply. Currently, the city only has access to technical water, which is not safe for consumption or cooking. We have set up purified water dispensing points, but a permanent solution is still being worked on. Many schoolchildren are still studying online, there is a need for offline education to resume. Finally, the security component is crucial for Mykolaiv, which continues to be under threat. The city is working on equipping shelters to ensure that residents have a safe place to hide during rocket attacks.

3.

What role do cities such as Mykolaiv play in the reconstruction of Ukraine?

Cities should be a part of this process. There are two possible main avenues for cities to contribute: through bilateral relations in the form of sister cities and through international contacts in the form of city networks. These two channels are not new, but since the start of the large-scale conflict, collaborations of this nature have taken on a new significance, and twin cities from around the globe have shown even greater support for their Ukrainian counterparts. Towns from all over the world have been helping the Mykolaiv community to survive the challenges of the war. We have a unique cooperation with Denmark, which is the patron of our city.

Building Blocks of the House of Europe

Twinning Teltow near Berlin with Khotyn in southwestern Ukraine—with the help of partner city Zagan in Poland—delivers concrete help now and in the future.

By Thomas Schmidt

Twinning European towns is an important building block that municipalities can add to the foundations of the House of Europe.

For us in Teltow, they open up the opportunity to bring people from different European countries together across generations. Encounters between artists, in our community center, or simply at this year's international soccer tournament create a basis on which the understanding of common values in Europe can grow. Over many years, we have ourselves experienced how mutual visits, friendships across borders and getting to know different rules and ways of life have strengthened the idea of Europe.

Europe has always played a role in Teltow's history. The proximity to Berlin is important here, but so is the division of Europe by the Iron Curtain, which closed right outside our city limits in 1961. Its opening in 1989 and 1990 brought us out of the confines of the German Democratic Republic (GDR) and back into a European context and this time has had a lasting impact on our population.

This may be part of the explanation as to why the idea of town twinning has taken root so deeply in Teltow. Contacts with France and Poland have existed for many years, and the partnership with the western Ukrainian town of Khotyn was established on January 23, 2023. The decisive factor was that it did not have to be ordered from “above,” but rather developed step by step. It was triggered by an overwhelming fundraising campaign by the people of Teltow shortly after Russia's invasion of Ukraine. Through our Polish twin town of Zagan, we were able to distribute relief supplies exactly where they were needed in Ukraine. Contact with the representatives from Khotyn was established at a Ukraine conference in Augsburg in August 2022.

It cannot be denied that the twinning of German and Ukrainian municipalities is singular in nature. The exchange takes place primarily between the administrations. We currently have no way of bringing people from Teltow together with people from Khotyn. However, it is very important to keep this goal in mind



Thomas Schmidt
is the mayor of
Teltow.

right from the start. Even if it is difficult to achieve at the moment, we have explicitly included cultural and sporting exchanges and meetings between young people in the partnership agreement. Our partnership association, “Teltow without Borders”—which has been vigorously promoting friendship with France and Poland for years—is actively involved. This promise for the future is crucial to ensuring that the partnership will continue beyond the end of the war.

Concrete Help for Ukraine

What counts in the present is concrete help for Ukraine. The twinning of towns works in two ways. First, it enables direct discussions with municipal decision-makers in Ukraine in order to determine exact needs. And second, it serves as a kind of hub for the concrete implementation of aid. This sounds very technical, but it also requires constant contact and discussions, a willingness to get involved on both sides and, last but not least, cooperation based on trust. It is essential that this work is carried out and supported by the mayors. They must provide human and financial resources, without which effective help is not possible.

The city of Teltow has now been able to bring several hundred thousand euros worth of relief supplies to Khotyn via various funding projects and private donors. This has included vehicles of all kinds that are important for the reconstruction and stabilization of municipal services, including two former public buses (which are now used as school buses in Ukraine); a fire engine; and two ambulances. Teltow has also sent a large electricity generator, garbage cans, and water hoses. The next major support package revolves around waste management, which also includes a technical exchange with our regional waste disposal company.

For a town like Teltow with just under 30,000 inhabitants, aid on this scale is only possible because federal ministries and executive organizations attached to them such as Engagement Global and GIZ have set up tailor-made projects. Our town twinning serves as a lever to make the federal programs effective.

We have learned that the time and effort required by local authorities should not be underestimated. It makes little sense to undertake major projects only to fail due to budgetary or personnel problems. It is important to correctly assess one’s



own strengths in order to achieve concrete results. With this in mind, the German Association of Towns and Municipalities has called on the EU to provide municipalities with fixed funding for the twinning of towns. The town of Teltow and myself in my capacity as chairman of the European Committee of the Association of Towns and Municipalities, have repeatedly put the issue on the agenda.

What applies in principle to town twinning is even more important for cooperation between German and Ukrainian municipalities—anchoring the task in the administration and in civil society. We have solved this in Teltow by establishing



One example of practical help: Teltow managed to send two former public buses to Ukraine, which are now used as school buses.

two town twinning officers. They manage the network within the administration and lead the dialogue with Ukrainian partners. The aforementioned twinning association



Teltow has mobilized relief worth hundreds of thousands of euros, via funding projects and private donors, to assist the reconstruction.

“Teltow without Borders,” which is financially supported by the city, promotes the idea among the population, and is already preparing meetings to move the partnerships forward.

When asked about the importance of town twinning for the current support and reconstruction of Ukraine, it is clear that the municipal cooperation is, if not the foundation, at least an essential part of German-Ukrainian relations. People’s everyday lives take place in towns and municipalities. In direct discussions with those responsible at municipal level, needs can be identified and help can be provided. Another important aspect is the diverse dialogue that town twinning makes possible at the grassroots level, which also serves to reaffirm common goals and values. This is an indispensable contribution to strengthening the European idea in times when it is seriously threatened by a war of aggression.

Jürgen Stich, head of Teltow’s department for culture, education, and social affairs, and **Julia Schröder**, the representative for town twinning, contributed to this article.

Profiles of the twin towns of Khotyn and Teltow

Khotyn is located approximately 80 kilometers from the border with Moldova and Romania in the southwest of Ukraine, directly on the Dniester River, a 1352-kilometer long tributary of the Black Sea. The town was first mentioned in documents around the year 1000 and received its town charter in the 14th century. Situated in the Bukovina



Khotyn Castle, overlooking the Dniester River, is one of the old city's many sights.

region, Khotyn has experienced a very eventful history over the past centuries and for a long time belonged to Moldavia, then to Poland-Lithuania, the Ottoman Empire, Russia, Romania, the Ukrainian Soviet Socialist Republic and, since 1991, to Ukraine. A visible sign of its turbulent history and important strategic location on the Dniester River is the Khotyn Castle, which dates back to the 15th century in its current form. Before the war, the fortress was one of the most visited sights in Ukraine. As the cultural and tourist center of the Chernivtsi/Bukovina region, Khotyn has numerous historical monuments. The town has a population of just under 18,500 and has taken in an additional 7,000 internally displaced persons since February 2022.

Teltow sits on Berlin's southwest border. Originally an agricultural town, it was first mentioned in a document in 1265 and in the 19th century was home to the head office for the Teltow district, the largest and economically strongest region in the former Kingdom of Prussia. A rail connection and the construction of the important Teltow Canal waterway brought numerous industrial companies to Teltow at the beginning of the 20th century. The construction of the Berlin Wall and the German-German border cut the connection to Berlin in 1961, and Teltow became part of East Germany. In the decades following reunification, Teltow was one of the fastest growing medium-sized towns in Germany. Almost 30,000 people now live in the town. Teltow hosts the largest inner-city industrial estate in the federal



Once an agricultural town, today an important place for industry: Teltow's central square.

state of Brandenburg and a great number of small, innovative companies have settled in Teltow over the past three decades. The city has thus put itself on the map as a hub for research and development as well as industrial production near Berlin.



Joining the European Union

EU accession is a two-way street: Kyiv needs to continue its reform path and its fight against corruption, while Brussels has to become more imaginative—and think about a postwar strategy.

Navigating EU Accession

Ukraine has made good progress meeting the EU's accession criteria and implementing laws. However, the ongoing war makes this process all the harder.

By **Oleksandra Bulana**

The Ukrainian people have strongly supported the idea of joining the European Union for a long time. Granting EU candidacy status to Ukraine in June 2022 resulted in huge public enthusiasm. However, substantial and systematic efforts are needed from nearly all Ukrainian public authorities in order to prepare for accession.

It goes without saying that Ukraine's experience is unique, as the country has to implement the accession-related reforms while fighting a full-scale war for survival. The "Copenhagen criteria" are among the most important accession requirements for any EU aspirant country. These include the following conditions: stability of institutions guaranteeing democracy, the rule of law, human and minorities' rights; a functioning market economy and the ability to cope with competitive pressure and market forces within the EU; and the ability to fulfill membership obligations, including implementing EU acquis.

There have been considerable achievements in meeting the EU's Copenhagen criteria, but challenges remain.

Democracy and Rule of Law

EU integration has already had a considerable impact on Ukraine's reforms in areas such as the rule of law, combating corruption, and protecting human rights.

For example, in 2015 Ukraine established a system of dedicated anti-corruption authorities, as part of visa liberalization arrangements with the EU. Shortly before qualifying as an EU candidate country, Ukraine ratified the Council of Europe Convention on Preventing and Combating Violence Against Women and Domestic Violence (the Istanbul Convention), thus demonstrating serious intentions to protect essential human rights in preparation for joining the EU.

Seven candidacy recommendations provided by the EU in 2022 have also given Ukraine a significant boost in rule of law reforms. Ukraine's candidacy and a visible EU membership pathway pushed Ukrainian politicians and authorities to take action on even the most challenging reforms in terms of the rule of law. This included the appointment of senior leadership for the anticorruption authorities;



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staff and structural reforms of the judiciary and its governance, such as the High Council of Justice and the High Qualification Commission of Judges of Ukraine; and also the adoption of media laws that had previously been stuck in the parliamentary process.

In the year and a half since the Ukrainian government started implementing EU candidacy recommendations, it has achieved substantial progress. This is why many Ukrainian experts expect that accession negotiations will be a serious stimulus for further reforms related to rule of law.

However, full-scale war and continued martial law represent a serious challenge for democracy. For instance, according to Ukraine's constitution, parliamentary elections are not possible during martial law, which has led to a certain deterioration of parliamentarism. The role of the Ukrainian parliament has been reduced, and a number of MPs are not motivated to work under such conditions. Yet it is legally not possible to hold elections and refresh the composition of the parliament until the end of the war.

Fundamental rights are obviously also under threat during the war. Ukrainian males are limited in traveling abroad and can be conscripted into the military against their will. Confiscation, the seizure of private property for defense purposes, is also possible under martial law. Protests and rallies are also prohibited. Media freedom has been limited by the establishment of the national "TV Marathon," which unified all the channels into one for news coverage shortly after the start of Russia's full-scale invasion; some television channels were pushed to agree to this arrangement.

Some of these restrictions are clearly necessary for the survival of the country during the war; however, some observers

may consider the measures excessive, or even a threat to democracy.

Although the return to democracy after the war may be a challenging task, negotiations with the EU will be the stimulus that will facilitate this process. Eighty-four percent of Ukrainian citizens support joining the EU, and therefore any Ukrainian politician will have to consider their opinions and show progress in the negotiations with the EU.

Functioning Market Economy

The European Commission, in its enlargement report of 2023, assessed the Ukrainian economy as between an early stage and some level of preparation for EU membership. One of the main reasons for the poor condition of Ukraine's economy is a direct consequence of the devastating war and destruction caused by the Russian invasion.

Before February 2022, Ukraine had survived the hybrid Russian invasion in 2014, when parts of the industrially developed Donbass region and Crimea were occupied (about 7 percent of Ukrainian territory). Between 2014 and 2015, Ukraine lost 15.8 percent of its GDP. The loss of people and industrial enterprises as well as the security risks significantly slowed down economic growth over the following years. The ongoing Russian aggression resulted in a number of negative trends in Ukraine's economy, including deindustrialization, FDI outflow, and heavy reliance on commodity (e.g., grain) exports.

Full-scale war and continued martial law represent a serious challenge to democracy



The European Commission's candidacy recommendations have given Ukraine a significant boost: Here, Commission President Ursula von der Leyen visits the Ukrainian parliament in November 2023.

In 2022, Ukraine's GDP fell by another 29.2 percent. However, according to a study by the Vienna Institute for International Economic Studies, if Ukraine's economy had not been affected by the Russian invasion, the country would have had the same trajectory of economic development in terms of GDP growth as the Central and Eastern European members of the EU. Today, the Ukrainian economy continues to suffer from Russian shelling, drones, and missile attacks aimed at civil infrastructure. For instance, as of May 2024, most of the country's thermal and hydro power plants have been either destroyed or heavily damaged by Russian missiles.

In addition, Ukraine has faced significant logistical constraints since the beginning of the war. Initially, the Russian

blockade of Black Sea ports made the export of agricultural and metallurgical goods by sea impossible. During 2023 and 2024 the blockade of the border with Poland created a major obstruction for trade with the EU and transit through European ports. Starting in September 2023, Ukraine managed to restore commodity exports through its Black Sea ports, predominantly through successful military operations.

In the meantime, constant Russian ballistic missile strikes are currently targeting the ports in the Odessa region, aiming to destroy Ukraine's civilian logistics infrastructure. Overall, destruction in the energy sector and limited logistics capabilities will remain the major threats to the economic recovery of Ukraine in the near future.

The preparation of Ukraine's economy for EU membership will heavily depend on the security situation. And Ukraine will need EU support to prepare its economy, which may amount to 0.13 percent of the EU's GDP, according to estimates published by the Bruegel think tank. This is indeed a significant figure, yet it can be potentially optimized through the use of additional external financial assets for Ukraine's economic recovery. Then again, a failure to enable Ukraine's security would create a risk of military-caused devastation for the EU's own economy.

Implementation of EU Acquis

Since the entry into force of the EU-Ukraine Association Agreement (AA) in 2016, Ukraine has started implementing EU acquis into national legislation. During this period, Ukraine has achieved the following major milestones:

- Implemented reforms in the electricity markets and synchronized its power system with ENTSO-E;
- Established a transparent system for public procurement;
- Undertook decentralization reforms enhancing the authority of local governments;
- Executed reforms in market surveillance and implemented a majority of EU technical regulations outlined in the AA;
- Initiated corporate governance reform;
- Acceded to the Convention on the Common Transit Procedure (NCTS);
- Adopted a new media law.

(The last one was a real gamechanger.)

Ukraine has achieved tangible progress in the adaptation of EU acquis in sanitary and phytosanitary measures, social policy, telecommunications, consumer protection, and so on. As of the beginning of 2023, Ukraine had implemented 55 percent of all the commitments under the AA, ac-

After the initial period of “quick wins,” the pace of implementation of EU acquis has slowed down

ording to a study by the Ukrainian Centre for European Policy (UCEP) and the Konrad Adenauer Foundation.

After the initial period of “quick wins,” the pace of the implementation of the AA has somewhat slowed down in recent years. This is probably because many outstanding Ukrainian obligations require comprehensive structural reforms, which can only be implemented through effective coordination among numerous governmental authorities, responsive leadership, and strong political will at the highest leadership level (all of these may not be guaranteed in practice). Also, as the EU-Ukraine Association Agreement did not anticipate the possibility of EU membership for Ukraine, there was not enough incentive to pursue these reforms.

Now, Ukraine still needs to proceed with the implementation of EU acquis under the AA. However, as the prospect for EU membership is now clearly defined, we can expect greater progress in completing this process.

An Ambitious Goal

It should be stressed that preparation for EU membership is a much more ambitious goal than AA implementation. There are approximately 550 EU acts that need to be implemented under the AA, according to UCEP analysts. Contrast that with the number of EU acts that need to be implemented for membership, which stands at approximately 3,000, according to the government's self-screening.

One of the major challenges for EU acquis implementation is the lack of public service capacity. The ongoing war presents huge challenges for the Ukrainian authorities.

The substantial outflow of women to Western countries, particularly skilled professionals with specialized industry expertise, was a common issue for public authorities at the beginning of the war. In addition, many male public servants were called up for military duty. Budget constraints (financing defense is an obvious priority) resulted in a decrease in public servants' remuneration, triggering another wave of staff departures.

All of these difficulties are accompanied by a low level of familiarity among civil servants with EU law, which they have to implement in the coming years: Only about 60 percent are familiar with the EU acts they need to deal with in their work. The EU and other organizations are working to help the Ukrainian government. They provide training for public servants and run projects to assist the Ukrainian authorities in EU acquis implementation. Despite the support, however, Ukraine needs systemic solutions, such as public service reform, to attract professionals to the sector and stop the outflow of qualified personnel.

The other challenge in the implementation of EU acquis will be preparing businesses for the new rules. While gaining access to the EU market has motivated Ukrainian businesses to adjust their products to meet EU standards, further adaptation might involve considerable costs and time. Among the most challenging chapters among EU acquis are Chapter 27 (Environment), Chapter 14 (Transport policy), and Chapter 11 (Agriculture and rural development), in particular requirements in reference to fertilizers, plant

protection tools, and the traceability of agrarian products. For Ukrainian small and medium-sized enterprises (SMEs), which are limited both in financial and organizational resources, this will prove a difficult process.

Only about 60 percent of public servants are familiar with the EU acts they need to deal with in their work. Ukraine needs systemic solutions, such as public service reform

On the Path to Membership

Ukrainians are highly motivated to join the EU and have demonstrated steady progress in conducting reforms even during wartime. The EU's influence on Ukraine's reforms when it comes to the rule of law, anticorruption efforts, and human rights protection has been substantial. Furthermore, businesses have already begun adapting to EU standards in preparation for accessing the EU single market.

As Ukraine progresses toward full-fledged membership, significant challenges lie ahead, including the implementation of numerous EU acts and addressing issues such as the lack of public service capacity and awareness of EU law among civil servants.

However, the ultimate challenge for Ukrainian European integration will be navigating the complexities of implementing EU legislation amidst the ongoing war. **IP**

The Fight Against the Internal Enemy

The immense financial resources needed to rebuild Ukraine raise the question whether sufficient guardrails exist to prevent corruption and embezzlement.

By Mattia Nelles

The latest damage assessments by the World Bank, the EU, the United Nations, and the Ukrainian government published in February 2024 put the costs of reconstruction at a total of \$486 billion. With Russia again on the offensive, the destruction of Ukraine's energy infrastructure, cities, and towns continues, and the costs are rising by the day.

The money, including foreign investments, required for the recovery are significant compared to Ukraine's GDP, which in 2022 amounted to \$160 billion, or the \$100 billion of cumulative foreign direct investment (FDI) the country has received since 1991. This raises the question of how the money can be sufficiently absorbed, meaningful projects be implemented, and how the spending can be transparently controlled to avoid misuse and corruption.

Any case of embezzlement of funds threatens to undermine the Western support that Ukraine so desperately depends on. Over the past 30 years, Ukraine has been battling corruption at home. But how well-positioned is the country to prevent corruption in its long-term recovery?

Corruption is a typical feature of transforming societies, especially in countries that were once part of the Soviet Union. Since regaining its independence, Ukraine has been plagued by weak institutions, as have most "post-socialist" states. Unlike in Central and Eastern Europe, the ruling communists in Ukraine managed initially to hold on to power, and the country for various reasons initially did not strive to join NATO or the European Union. This meant that Ukraine's adaptation to a market economy, and its accompanying governance reforms, were painfully slow.

Progress Since 2014

Since 2014, a vast array of reform bills have been passed and many transparency and accountability mechanisms have been introduced. Among them is ProZorro, the award-winning obligatory public procurement system, which enabled the state to save up to \$6 billion between 2017 and 2021. The establishment of one of the world's most far-reaching e-declarations marks another achievement. About one million public servants—from lowly local



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officials to top-level judges—are obliged to annually file far-reaching declarations about their families' assets and income. This completely transparent registry enables anti-corruption agencies, journalists, activists, and ordinary citizens to hold public officials accountable.

For the first time, Ukraine also established independent anti-corruption institutions with the mandate to root out top-level corruption. In 2015 the National Anti-Corruption Bureau (NABU) and Specialized Anti-Corruption Prosecutor's Office (SAPO) were set up. They were joined in 2019 by the High Anti-Corruption Court (HACC) and were established as "islands of integrity" outside the existing institutions focused on combating high-level political corruption.

One of the important elements was that the new institutions, which enjoy far-reaching competencies, selected their leadership in transparent and meritocratic selection processes. Important criteria for the candidates were not only professionalism but also a high level of integrity. For the first time, foreign experts participated in the selection process and held a veto to weed out candidates. Together the new institutions have indicted over 500 senior state officials, judges, and leaders of state-owned enterprises, 160 of which have been sentenced. Even during Russia's full-scale invasion, the corruption investigators and prosecutors have continued their work and some high-profile arrests have been made.

Since February 2022, when the majority of the state funding was directed to military expenditures and the larger war effort, corruption in the military sphere became especially sensitive. Allegations of overpriced non-lethal procurement rocked the Ukrainian Ministry of Defense in 2023. Earlier this year, Ukrainian investigators uncovered a corruption scheme in con-

nection with the purchase of arms by the country's military totaling the equivalent of about \$40 million. Some Ukrainian experts believe that these scandals are only the tip of the iceberg, as most military procurement is classified. Any scandal, however, resonates strongly with Ukraine's society since there is a broad understanding that corruption in the country's military poses a significant threat to the safety and security of the army and risks undermining Western support.

Experience of Corruption in Decline

According to various estimates and indices, corruption has decreased over the past two years, but it remains a problem. In the National Corruption Perceptions and Experience Poll 2023 conducted by the Kyiv International Institute of Sociology (KIIS) and published in July 2023, 14 percent of the respondents indicated that they or family members had experienced corruption during the past 12 months. This number is high but by far the lowest figure since the first KIIS survey in 2007, when 67 percent reported having experienced corruption. The same poll found that corruption is perceived as the most serious problem Ukraine will face after the war, with 89 percent of respondents saying so.

Most notably, in the 2023 Transparency International Corruption Perceptions Index, Ukraine showed one of the best annual improvements, moving up to 104th place out of 180 countries (ranked alongside Brazil and Serbia). That made Ukraine one of the few countries where the situation has "particularly improved," while the situation in many other countries has deteriorated.

This is being reinforced by the fact that Ukrainian society sees corruption as the biggest "internal enemy" that needs to be combated given the existential threat from

Russia on the one hand and the prospects of EU membership on the other.

The progress in fighting corruption has also been recognized by the European Commission's progress report, which served as the foundation for the European Council's historic decision to pave the way for Ukraine's EU accession talks. In short, Ukraine's post-Maidan anti-corruption institutions continue to prove their efficacy, by investigating high-profile corruption cases of powerful individuals. However, given their narrow mandate of combating grand, or political corruption, the question remains how corruption at all levels can be prevented in Ukraine's recovery.

Dream Big

Building on the success of ProZorro, the government, together with civil society and international organizations, has created the Digital Restoration Ecosystem for Accountable Management (DREAM). The platform has the potential to be as crucial to the integrity of the recovery as ProZorro has been for wider public procurement. It could act as a single monitoring tool for all recovery projects and allow regulators, investigators, investors, and citizens alike to monitor all the documents and steps of each recovery project.

Until early 2024, over 2,100 restoration projects with confirmed funding of around \$3.4 billion have been included in the system. However, the platform is currently not yet mandatory, and misuse not punishable. That should be changed, and all projects funded both directly and indirectly by the international partners of Ukraine or the Ukrainian government should be required to go through the DREAM system to allow for maximum transparency.

But even the best transparency alone will not suffice to prevent corruption. Proper budget oversight is a must-have. That is

why Ukraine's Accounting Chamber, as the country's supreme audit institution tasked with monitoring the receipt and use of state budget funds, has to be significantly strengthened and resourced to play a major role in monitoring all state expenditures including the recovery funds.

*The best transparency
alone will not suffice to
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Proper budget oversight
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For broader corruption prevention in Ukraine's recovery, ongoing judicial reform is of the utmost importance. The reform consists of varying components and affects several courts, from the Supreme Court and the Constitutional Court to the High Administrative Court, but also the judicial self-governance bodies as well as judicial education and the Ukrainian Bar Association. The struggle over how courts are set up and judges are vetted is central to this endeavor. While the 2023 EU assessment noted advancements, Ukraine's critics view the progress as mixed. Reforming the country's judicial system while at war is particularly difficult, but the recovery depends on whether the country's courts are effective and not corrupt.

While some progress has been made in the judicial system, a lack thereof can be observed in the law enforcement agencies, from the entirely unreformed Security Service of Ukraine (SBU) to the National Police. The SBU plays a key role in undertaking special operations and is thus unlikely to be reformed during the war. But any smaller corruption offense is reported first to the National Police. That is why at

least initial reforms of the National Police must take place during the war.

Given the large amount of money necessary for the recovery, large private investments are a critical component. In recent months, however, several Ukrainian businesses have complained about growing pressure from law enforcement and other government agencies. The primary agency to tackle this problem is the Economic Security Bureau (ESB), which was only established in 2021. Unfortunately, the ESB itself has been mired in scandals and is awaiting a complete overhaul.

Preventing (Re)Oligarchization

Since the 1990s, oligarchs have exerted significant political influence through their companies and media, especially in Soviet legacy sectors such as industrial energy and metallurgical enterprises. Over the past 10 years, but especially since Russia's full-scale invasion, the oligarchs' control of Ukraine's economy has decreased; many have lost billions from the destruction of their factories. Furthermore, the government has used its wartime powers to break their influence. The consolidation of all TV channels into one quasi-state-controlled TV channel further weakened the oligarchs—but raised questions about media freedom.

In today's Ukrainian economy, multimillionaires in fast-growing new sectors, such as IT, no longer possess monopolies in the supply and distribution of critical resources. This reduces the power to convert

wealth into political sway. Nevertheless, Ukraine's Anti-Monopoly Commission needs an overhaul to address the remaining oligarchic influence and the future emergence of monopolies. First steps were taken in late 2023 but more are required because contracts worth billions as part of Ukraine's eventual recovery raise the prospect of a new class of "politically connected" businesses.

While Ukraine's progress over the past 10 years has been impressive, a more institutionalized approach to prevent corruption is now needed in light of the enormous task of recovery. Many of the necessary changes, such as judicial reform, are under way and reinforced by the EU accession process. Many others, however, do not get enough attention.

Oversight of state and international recovery funds through the DREAM platform, the strengthening of Ukraine's Accounting Chamber and Anti-Monopoly Committee, as well as reforms of the Economic Security Bureau and the National Police, are needed. This process will take time, but lessons from the establishment of the anti-corruption institutions tasked with combating grand corruption show that change is possible. Key lessons are already being applied to judicial reform and involve focusing on an open, competitive selection of the leadership of institutions with a focus on experience, professionalism, but also integrity.

The good news is that Ukraine and its civil society are advancing the reforms necessary to prevent corruption. It is high time that Ukraine's international partners identify key areas of reforms and forcefully advocate for and help Ukraine to implement them. EU accession and foreign financial contributions give these entities the levers to advance difficult but much-needed changes. **IP**

Ukraine and its civil society are advancing the reforms necessary to prevent corruption

A Special Green Deal for Ukraine To implement the European Green Deal in the war-torn country, it needs to be transformed from a lofty slogan to a pragmatic development strategy.

By Georg Zachmann

Right now, physical security and enduring living conditions are much more pressing issues for virtually every Ukrainian than limiting global warming and ensuring a healthy environment. The European Union's ambition to reach net-zero in CO₂ emissions by 2050 seems far removed from the concerns of a country that is fighting for survival. This has important consequences for how to integrate Ukraine into the EU's Green Deal. It will only be "owned" by the Ukrainian population and its politicians if it can substantially contribute to a robust economy that underpins prosperity and security. In other words, Ukrainians will not be content with vague promises of green economic "opportunities."

There is a risk that the EU accession process might trigger an undesirable dynamic that undercuts the legitimacy of the European Green Deal in Ukraine. European negotiators might be pushed by interest groups—such as incumbent EU businesses that seek protection or environmentalists that see a lot of low-hanging fruits—to demand very ambitious targets and stan-

dards while Ukrainian negotiators under enormous pressure to make quick progress on EU accession might not be in a position to push back—even if implementation of some elements is unrealistic. If in addition the economic and social fallout of implementation is left to be handled by the Ukrainian political system (i.e., no specific funds and exemptions are granted), the legitimacy of the Green Deal might suffer a severe blow in Ukraine.

Any Ukrainian government that would try to dutifully implement transformative environmental regulation promised in the accession process would be faced with a populist opposition that would point out the cost of policies initially conceived in Brussels. This will make the corresponding government and "the EU" the culprit for any transformation pain.

Alternatively, an ineffective pro-forma transposition of laws and targets to tick the necessary boxes of the accession process would not only fail to reach the desired targets, but would also undermine trust in European institutions. At worst, it might lead to a perception of Brussels



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as a remote capital that is best dealt with by repeating the slogans but ignoring the essence (unless micro-managed). Hence, an “imposed” Green Deal only anchored in the accession process and largely pre-conceived in Brussels might backfire.

A Sustainable Growth Strategy

However, the Green Deal does not need to become a divisive agenda of meeting externally mandated standards and targets. If well designed, the Green Deal—in the sense of a new environmentally-sustainable economic model—might become a strategy that enjoys domestic consent and constitutes a main building block for a prosperous and secure Ukraine. It could open new export markets and future-proof areas of economic specialization for a country that needs to move up the value chain to catch up with its European peers in terms of per-capita income. It is a precondition for attracting much needed investment in long-lasting productive assets, which will heavily rely on being attractive to private investors.

The country has historically suffered from underinvestment in industry, infrastructure, and buildings. In addition, the war is profoundly affecting Ukraine’s economy. The population has substantially decreased and been dislocated; risk and capital costs have increased; infrastructure and other capital stock have been damaged.

In light of this, a sustainable recovery cannot solely rely on repairing damaged

capital stocks. Achieving lasting prosperity and security requires a massive up-tick in investments. Even with a reasonable amount of donor support, the required investment volumes for strong and lasting growth will not be met. Therefore, Ukraine needs to attract a significant amount of private investment, but an inflow of private investments will only materialize if they can generate lasting value for investors. In the short term this requires fixing urgent bottlenecks—such as infrastructure—to keep the economy going. But it also requires a credible growth outlook.

Ukraine rightly sees its economic future in the EU. Its funds, institutions, and the internal market provide a powerful package for economic prosperity—as exemplified by the impressive economic growth experienced by the former communist countries since joining the EU in 2004, primarily Poland. This is an attractive perspective for investors—but it also implies that myopic economic policy choices, such as undercutting environmental standards, could cause investors to doubt if the government itself believes in speedy accession. By way of contrast, a clear pathway for implementing European Green Deal policies reduce uncertainty for investors.

The success of a Green Deal in Ukraine depends on implementing policy instruments that attract foreign private investment and encourage more efficient usage of resources. Thereby, policy instruments need to be targeted to the Ukrainian realities of today. Policy instruments that consistently combine much needed domestic policy reform, catalytic partner support, and external commitments achieve much more than any of these levers alone.

Ukraine cannot wait until the war ends. Pilot projects and policy pathways need to be set up now. This will enable the strengthening of implementation capacity

Ukraine cannot wait until the war ends. Pilot projects and policy pathways need to be set up now

both on the national and local level. Ultimately these preparations will allow for the scaling up of these activities to make a macroeconomic contribution toward Ukraine's green recovery.

The examples of carbon pricing and the derisking of sustainable power investments illustrates how targeted Green Deal instruments can strengthen Ukraine's security, prosperity, and attractiveness in a specific sector.

Carbon Revenues for Growth

Carbon pricing is the centerpiece of industrial decarbonization in the European Green Deal. Full access to the internal market, let alone EU membership, is not conceivable without adequately pricing industrial greenhouse gas emissions. Due to Europe's carbon border measures, emission-intensive producers will incur penalties when entering the European market.

But simply imposing EU carbon pricing on current Ukrainian companies would

force many of them out of business. Such a shock therapy would be met with strong political resistance. In contrast, a policy mix that allows companies in Ukraine to conduct industry-decarbonization investments would not only be economically sensible, it would also mitigate the political backlash against carbon pricing. It could rest on three complimentary pillars: First, EU-compliant standards for new investments to avoid lock-ins; second, a clear pathway of introducing increasing costs for greenhouse gas emissions; and third, tools to support the transition of existing industries decarbonizing.

To encourage and enable Ukraine to move quickly on this crucial matter, the EU might test out a promising new instrument. Rather than supporting decarbonization projects in Ukraine directly, Brussels can promise to match the Ukrainian government's carbon-pricing revenues with additional loans or grants. This would commit as well as encourage the Ukrainian government to speed up the carbon pricing trajectory.

Both the carbon revenues and the matched money might be pooled into a fund that is jointly operated and serves investments in transitioning Ukrainian industry (and possibly compensating most vulnerable consumers). Investment supports could be distributed in transparent processes.

A well-governed and endowed fund can become a real engine for a green transformation of Ukraine and efficient post-war recovery. The efficient and credible "recycling" of carbon revenues based on a governance architecture that involves international partners could mitigate the concerns of Ukrainian businesses, while Ukraine's partners might obtain extraordinarily strong transformative leverage as their support not only encourages in-

Russian attacks damaged a number of solar power panels at a station in Merefa, on the outskirts of Kharkiv, in May 2022.



dividual projects but enables meaningful economy-wide carbon pricing.

De-risking Power Investments

Ukraine's electricity sector needs huge investments to address the existing backlog, war-related destruction, and its transformation needs. Attracting private investors will be crucial to mobilize the required construction.

*The implementation of
Green Deal instruments
should start immediately.
Time is of the essence*

Moreover, given the scale of destruction, it is evident that decentral flexible generation, storage, and renewables will have a crucial role of providing resilience during the war; solutions that have limited variable cost and low cumulative emissions will also be valuable thereafter. To encourage efficient deployment and usage of such assets, private investments reflecting market signals would be very valuable.

But the existing regulatory framework, war-related risks, uncertainty about the future electricity system, and high capital costs make the sector virtually uninvestable. There are no easy fixes, as investors do simply not trust long-term payment promises by the Ukrainian state or other market participants.

To overcome this, international supporters should not “just” finance individual assets but develop and support financial mechanisms (e.g., a clean electricity trust fund) that guarantees certain revenues from private investments in desirable Green Deal compatible technologies. This

would lower the corresponding rates for the eligible investments—making it possible for the government and market to actually meet them—building trust and a true market over time. If, in return for accepting such a financial exposure, donors demand some tricky reforms (such as enforcing transparency and accountability of distribution companies), such conditionalities could trigger further investments.

Under a well-designed and executed system, private investment should far exceed what donor grants could deliver, which would avoid the activation of public guarantees.

A Tailor-Made Solution

Just implementing the letters of the EU energy and climate acquis does not guarantee a successful Green Deal for Ukraine. The country is justifiably focused on quick economic wins and less concerned about long-term environmental and economic benefits.

A Green Deal for Ukraine will hence have to look very different from a Green Deal for, say, Luxembourg. The good news is that for Ukraine the EU accession process and donor support provide valuable commitment devices for reforms and investments in sustainable solutions. These credibility anchors can be used to make otherwise impossible progress. To do so, the Green Deal needs to be translated into concrete co-designed and co-sponsored instruments to catalyze private investments. The narrative is convincing, but heavily contingent on good policy, both by Ukraine and its partners.

Implementation of Green Deal instruments should start immediately. Time is of the essence for building human networks, capacity, and trust. To underpin the fast scaling of private investments Ukraine needs to catch up with its future EU peers. **IP**

Securing Ukraine's Place in Europe

The country's accession to the European Union offers an opportunity to design a post-war strategy for the continent. European leaders should make the most of it.

By Nicoletta Pirozzi

The brutal and unlawful Russian aggression against Ukraine has confronted the European Union with its responsibilities. The decisions to grant candidate status to Kyiv in June 2022 and to start accession negotiations at the European Council in December 2023 answered Ukraine's European aspirations and offered the country a way toward realizing its democratic path. At the same time, the EU has the opportunity to design a post-war strategy for the continent.

However, Kyiv and Brussels have to be intentional with their choices to pave the way for a steady and effective integration of Ukraine in the EU. The Ukrainian government needs to demonstrate that the necessary reforms can be implemented, especially when it comes to functioning democratic institutions and a healthy rule of law. The EU must take a series of steps—to be prepared carefully and implemented in a resolute manner—with reference to either its immediate, medium-term, or long-term actions.

At present, the effort of the EU and its member states has to be focused on provi-

ding unconditional support for Ukraine's resistance to the Russian invasion, in particular through sanctions and by providing military hardware. Not only do we need peace in the country to integrate it into the EU, we need a peace that is just and sustainable. This requires the EU to keep a united stance against the aggressor, Russian President Vladimir Putin. A ban on liquefied natural gas (LNG) and new instruments to tackle circumventions must be put in place to make the sanctions regime work. Furthermore, the EU has to find the additional and collective financial capacity to equip Kyiv with the necessary weapons to counter the Russian offensive.

In the medium term, hopefully after a successful defense of Ukraine followed by the beginning of an advantageous negotiated settlement with Russia, the greatest challenge for Europe would be to ensure the reconstruction of the battered country. It has been calculated that Ukraine would need \$486 billion over the next decade to get back on its feet. And most of the burden would have to be borne by the EU. This would require a mobilization of funds



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well beyond the European governments' capacity.

One way of doing this is to involve a broad range of stakeholders, including international organizations and financial institutions, business and civil society organizations, and to rely on public-private partnerships. This is the approach of this year's Ukraine Recovery Conference in Berlin, and it will continue at the next conference in Rome in 2025. In addition, the EU, in cooperation with the G7—which is currently led by Italy—should take important and urgent decisions to make use of the money generated by the frozen Russian assets to rebuild the country.

Develop Long-Term Strategies

But Ukraine's accession to the EU will likely be a long-lasting process that requires the EU to strategize for the long term. First of all, the EU would need to give Ukraine adequate security guarantees until its accession, when it will be covered by the mutual defense clause provided by article 42(7) of the Treaty of the European Union. This could be done through a reinforced European Peace Facility to fund its defense capacities, but also through civilian and military missions with mandates that include the advising, training, and equipping of security and military forces and relevant institutions and agencies. At the same time, if the EU wants to make the accession of Ukraine a success story and avoid the mistakes of the past, it has to embark on a difficult reform process, both internally and with regards to its enlargement policy.

Internally, beyond institutional reforms, enlarging the EU to include Ukraine poses the problem of the redistribution of the EU budget as well as funds for the Cohesion Policy and the Common Agricultural Policy (CAP). Indeed, Ukraine's entry

would lead to a lowering of the EU's GDP per capita, which in turn would lead to a reshaping of budget allocations, including the Cohesion Funds. Above all, Kyiv would become the primary beneficiary of the CAP, whose funds are distributed according to the hectares of land cultivated, to the tune of around €85 billion, according to estimates by the Bruegel think tank. A reform of the budget rules and in particular of the CAP thus seems necessary.

If the EU wants to make the accession of Ukraine a success story, it has to embark on a difficult reform process, both internally and with regard to its enlargement policy

Regarding the enlargement policy, welcoming Ukraine (and potentially other countries from the Western Balkans and the Eastern neighborhood) calls for a higher degree of flexibility. Possible measures include granting entry to the European single market as a first step toward EU membership, the progressive access to the EU's structural funds as early as the pre-accession phase, or the participation of representatives of Ukraine in European institutions.

Making Kyiv's European dream come true requires the investment of massive political and financial capital. The EU has to take charge of the process. It not only must not betray the promises made to the Ukrainian people, it also has to realize that it is making a strategic investment in its own security and well-being. **IP**

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