

Reconstructing Ukraine

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This analysis makes unique contributions

1

Defines and draws on a broad set of relevant cases



Western Europe and Japan
after WWII



Eastern Europe
after the Cold War



Western Balkans after
breakup of Yugoslavia



Natural disaster
recovery

2

Security is a core element

3

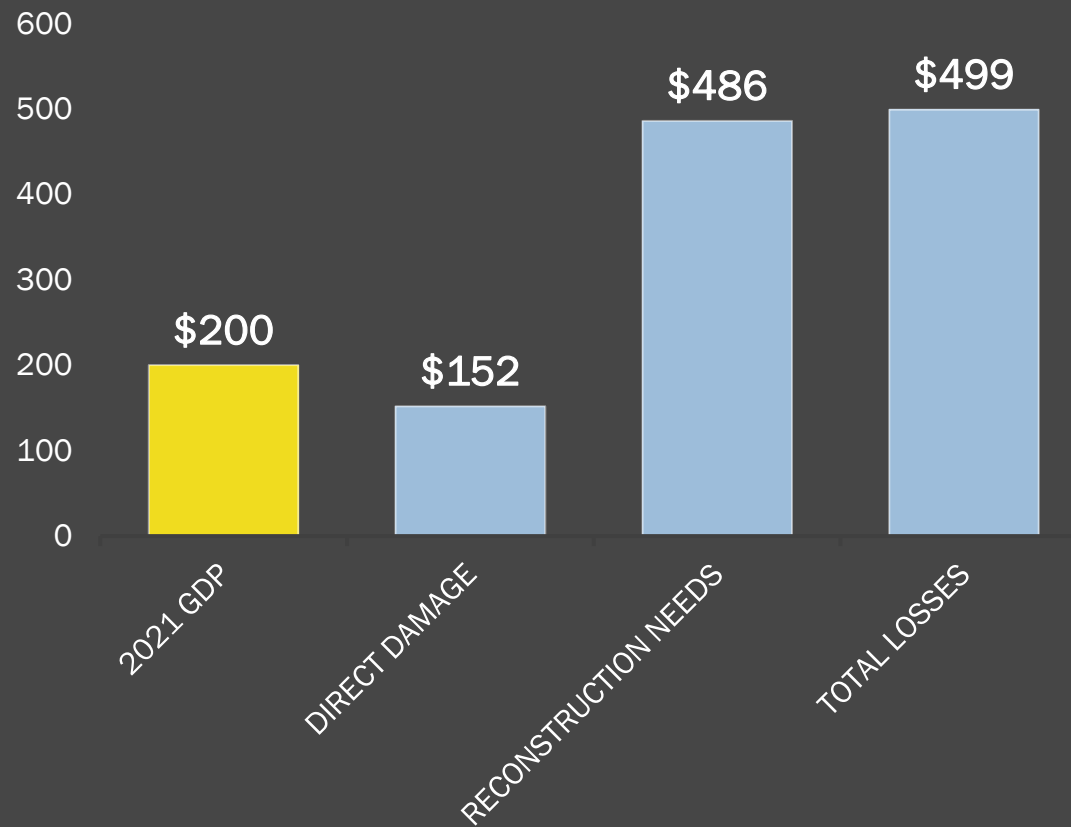
Team with rich personal experience

Overview

- ▶ Reconstructing Ukraine: The challenge
- ▶ Learning from previous reconstruction efforts
- ▶ Financing reconstruction
- ▶ Organizing Ukraine's reconstruction
- ▶ Organizing the U.S. government
- ▶ Ensuring security and deterrence
- ▶ What the U.S. should do now

Rebuilding costs estimated to be multiples of Ukraine's pre-war GDP

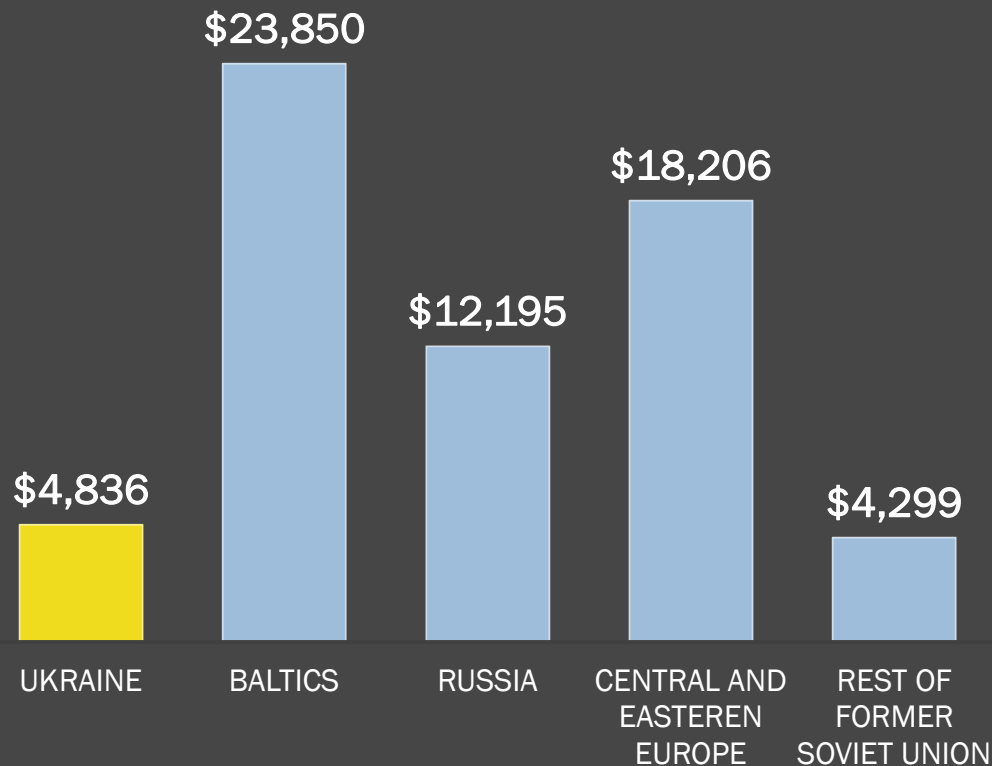
Damage, Reconstruction Costs, and Losses through 31 December 2023, U.S. \$ Billions



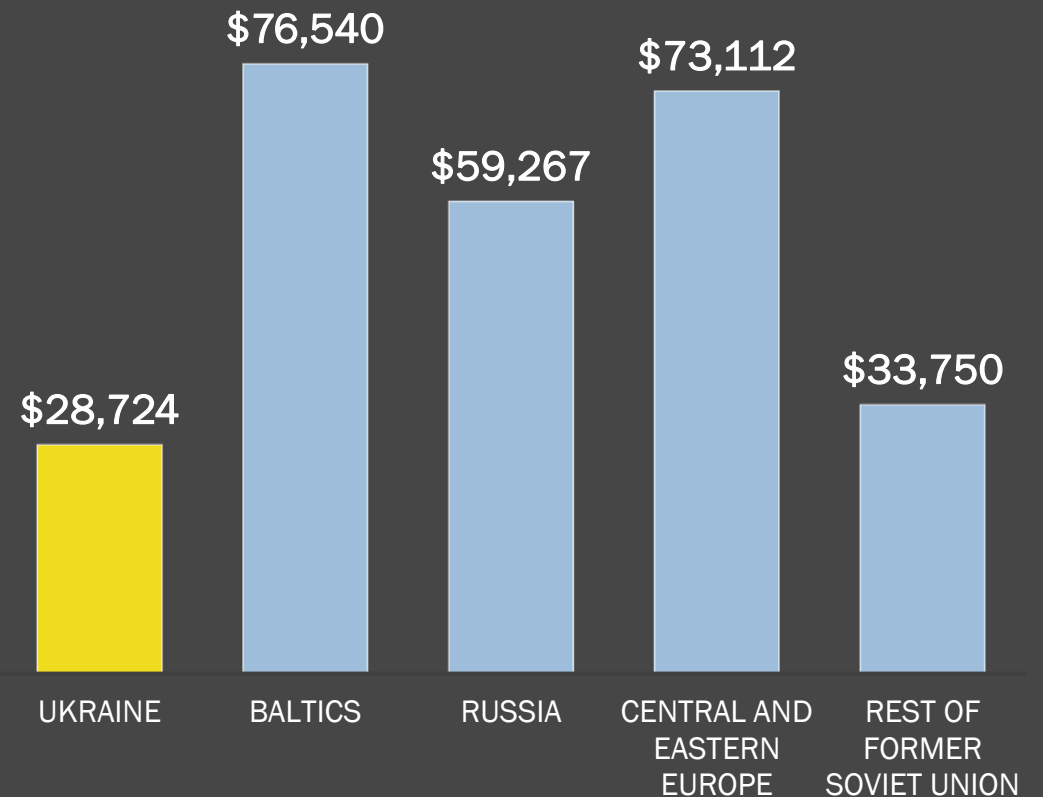
- 2021 GDP is valued in nominal U.S. dollars
- Direct Damage is valued in terms of the nominal replacement price before the war
- Recovery and Reconstruction Needs are over 10 years are valued market prices as of December 31, 2023
- Economic, Social, and Other Monetary Losses are changes in economic flows resulting from the war, valued in nominal monetary terms

Ukraine has an opportunity to reverse 30 years of unsatisfactory economic and political development

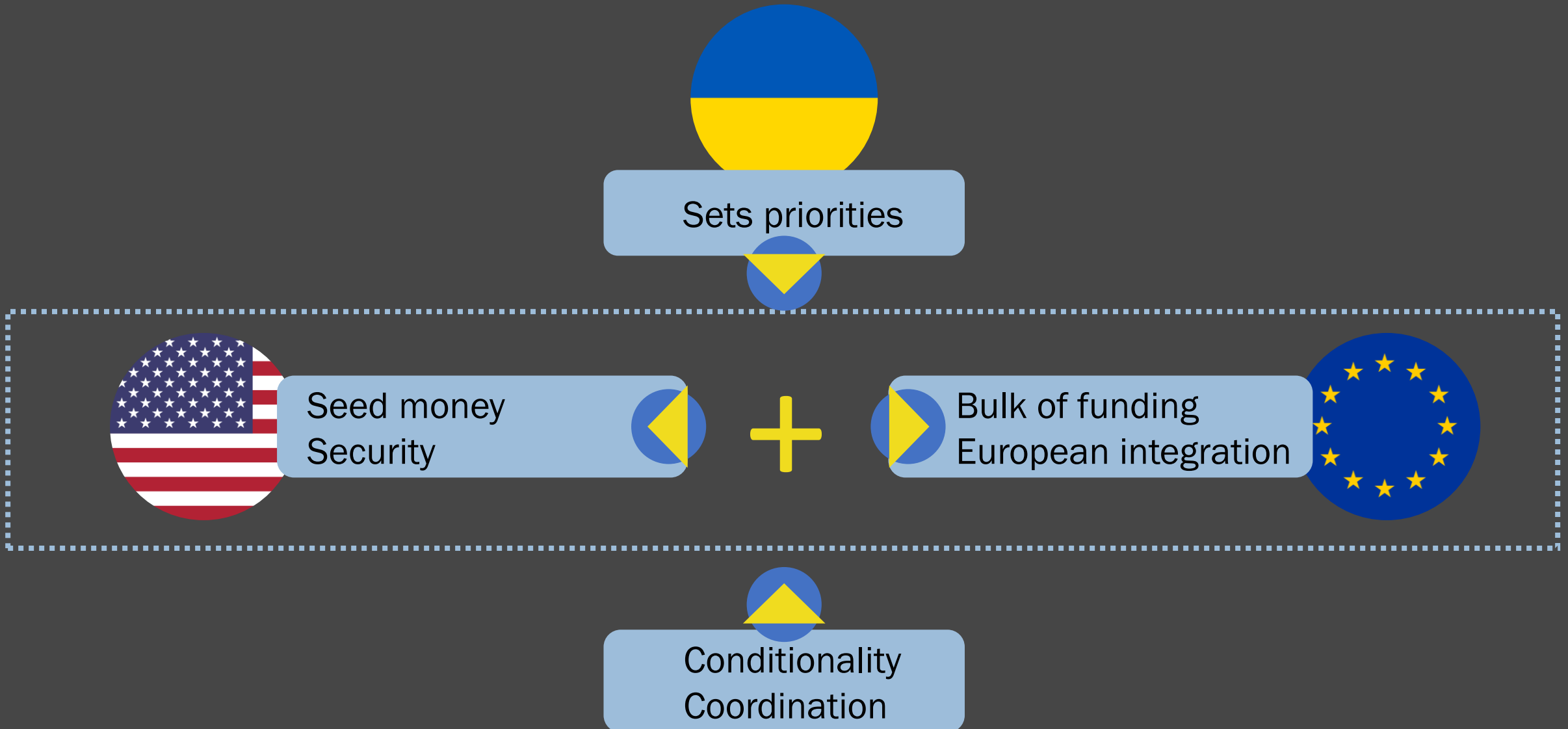
Poorest country in Europe
GDP per capita, 2021, nominal US\$



With the lowest productivity
GDP per worker, 2017, constant PPP\$



Basic formula for reconstruction



Western Europe post-WWII

MARSHALL PLAN

- April 1948–June 1952
- \$13.2 billion (about 1.4% of U.S. GDP and 2.6% of recipients' GDP)
- Goals
 - Expand European agriculture and industrial production
 - Restore currencies, budgets, and public finances
 - Foster international trade
- Europeans required to find cooperative paths to recovery and provide financing



National Archives via Wikipedia

Rotterdam City Center
May 1940

WHY IT WORKED

- Stabilization gave governments room to balance budgets and stop high inflation
 - Policies allowed market forces to operate
-
- Plan fostered labor peace by promoting growth, productivity, full employment
 - U.S. extended security guarantee to Europe through NATO
 - Buy-in due to public and congressional support

Central and Eastern Europe in the 1990s

THE END OF THE IRON CURTAIN ACROSS EUROPE



Sebastian Wilczewski via Getty Images

Shipyard in Gdansk, Poland

- Liberated countries in economic crises
- Successful reforms had external financial support
- Reforms needed
 - Macroeconomic stabilization
 - Economic liberalization
 - Privatization
- Conditionality included expectations that reforms would move in a democratic direction

WHY IT WORKED

- Countries strategically sought benefits of integrating with Western Europe
 - Agreements gave access to EU markets in return for reforming policies and institutions
-
- Linking to Europe generated foreign direct investment (FDI) from EU and trade
 - Among early signatories, trade with EU grew by 194% in 1989–1994 and by 129% in the next 5 years
 - Most external funding came from EU
 - In Czech Republic, Hungary, Poland, Slovakia, and Slovenia, more than half of external finance was FDI

Western Balkans

NATO PEACEKEEPING

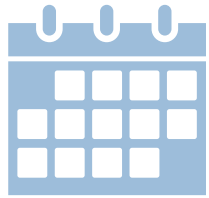


NATO

NATO peacekeeping troops
Kosovo

- EU has primary responsibility for reconstruction
- All nations had macroeconomic imbalances, sectoral challenges, and institutional inadequacies
- NATO maintained stabilizing security missions
- Initial financial assistance was emergency aid; repair and rebuilding infrastructure followed
- Rebuilding and EU accession have gone slowly
- But each effort has consolidated the peace, rebuilt the economies, and introduced or strengthened democratic governance

These reconstruction efforts have consistent patterns



Starting reconstruction takes time: initial need is humanitarian assistance



Facing high inflation, countries often need stabilization



Official assistance can take risks private sector cannot, creates conditionalities that encourage good policies



Some financing must come from country undergoing reconstruction



Reliance on market mechanisms, especially international trade links, was critical



Foreign direct investment boosted reconstruction



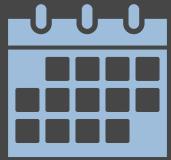
Strength of external security agreements contributed directly to strength of reconstruction

Lessons from natural disaster reconstruction

| THEMATIC AREA | APPLICATION TO UKRAINE |
|------------------------------------|--|
| Setting priorities | Develop plan to prioritize and guide recovery and reconstruction |
| Funding | Use strategic equity funding to mobilize private funding for important projects; Ukraine may struggle to absorb and spend assistance quickly |
| Coordinating donors | Establish structure to control donor freelancing; donor buy-in requires transparency and anti-corruption and accountability measures |
| Local roles and capacity | Involve communities in setting priorities; ensure they can fulfill their roles |
| Displaced populations and returns | Facilitate return of displaced population, including prioritizing basics like shelter, schools, medical care |
| Transparency, accountability, data | Establish framework for monitoring and evaluating funding outcomes to reassure investors and maintain long term international support |

Facilitating the return and settlement of the 6.5 million refugees and 3.7 million internally displaced persons – more than 23 percent of Ukraine's 2021 population – will be a significant challenge

Financing reconstruction of Ukraine



Ukraine has dire immediate needs for assistance



Financing will have multiple sources

- Official development assistance
 - Private-sector financing and investment
 - Public and private financing from Ukraine
-



Russia's frozen international reserves could play a role

- Using them requires legal basis that minimizes effects on international financial system

Aid will be needed – and useful

- Official development assistance can take risks that private sector will not
 - Can “crowd-in” private sector investment
- Example: The Oasis Hotel in Haiti
 - Clinton-Bush Haiti Fund provided \$2 million, which brought in private-sector equity investment, which brought in an International Finance Corporation investment
- An example from the United States: Enterprise Funds for Central and Eastern Europe
 - Loans, equity investments, technical assistance for small and medium enterprises
 - Independent board of directors with investment experience
 - Authorized at \$1.3 billion, reinvested \$1.7 billion in net proceeds, raised \$6.9 billion in outside capital
 - Funds returned a profit to the U.S. Treasury
 - Converted into philanthropic foundations

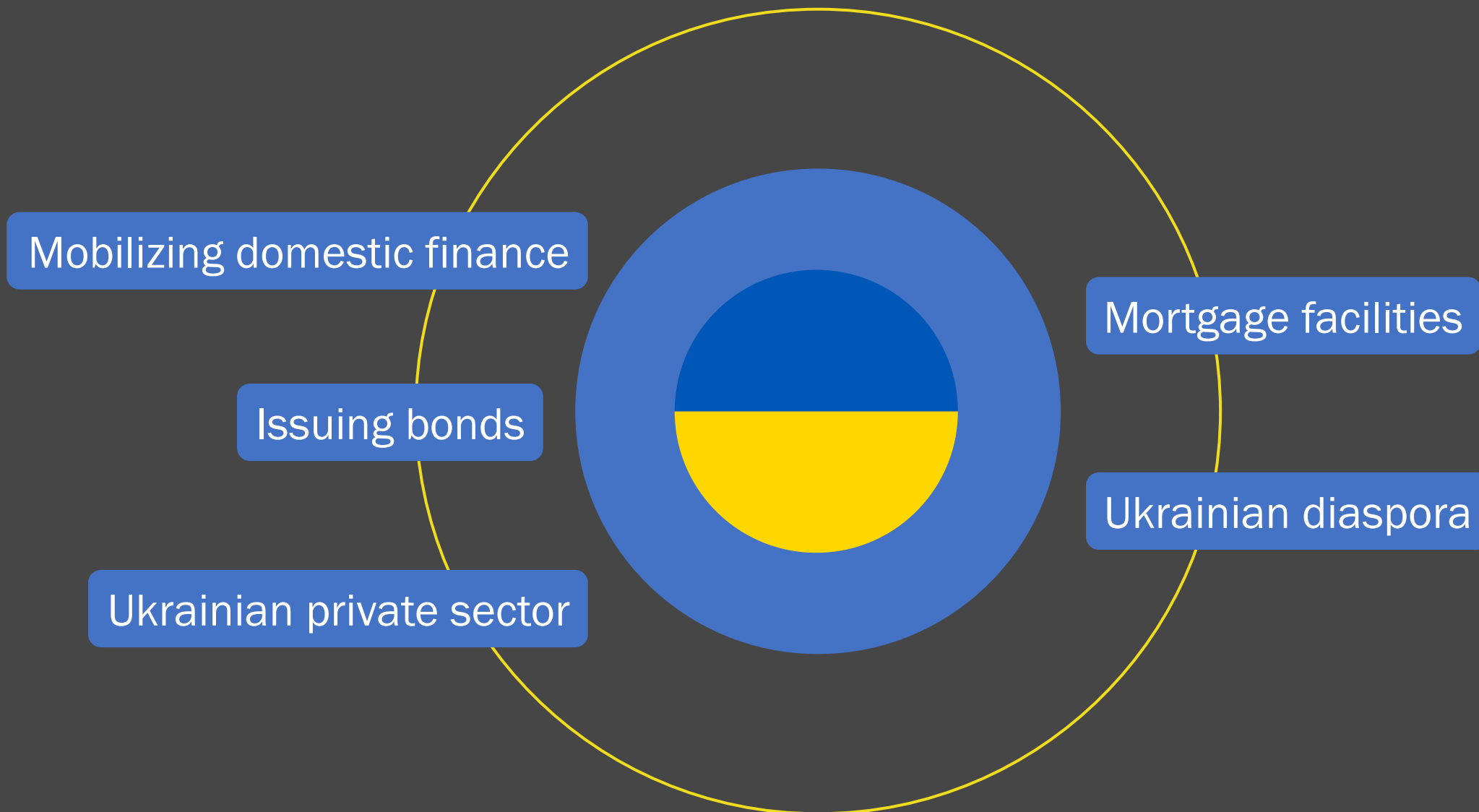
Private investment has funded most reconstruction in past

Private investment in 2022
National Recovery Plan
~\$250B



- Private investment is essential for a prosperous post-war economy
- Publicly sponsored enterprise funds can crowd-in larger flows of investment into private enterprise
- Publicly supported political risk insurance could mitigate risk for private investors
- Official funding agencies can co-finance major infrastructure projects that are Ukrainian priorities
- Reforms that improve business environment and strengthen manufacturing base attract FDI

Ukraine itself is also a source of financing



Options for blocked Russian sovereign assets

- The quandary: states are responsible for their violations of international law, justifying reparations, but states have sovereign immunity from domestic courts
- Seizure is the most extreme, could be justified as a third-party countermeasure
 - Countermeasure should be temporary, reversible, aimed at inducing compliance with international obligation
- Use of profits earned cash spinoff from reserves based on non-remuneration clause
- Collateralize the assets and borrow against them
- Legislation allowing seizure is moving through the U.S. Congress, will not apply to other jurisdictions
- G7 and EU; Russia must pay for the damage it has caused Ukraine

How to organize Ukraine's reconstruction

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K

1

Set
priorities

2

Lead
security

3

Lead economic
reform and
recovery

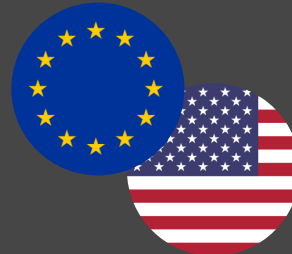
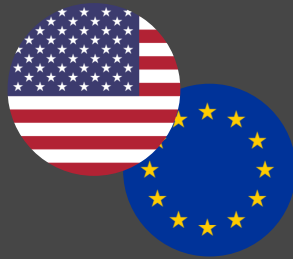
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Provide
reconstruction
experience and
major project
financing

5

Sustain
current
operations

L
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D



THE WORLD BANK

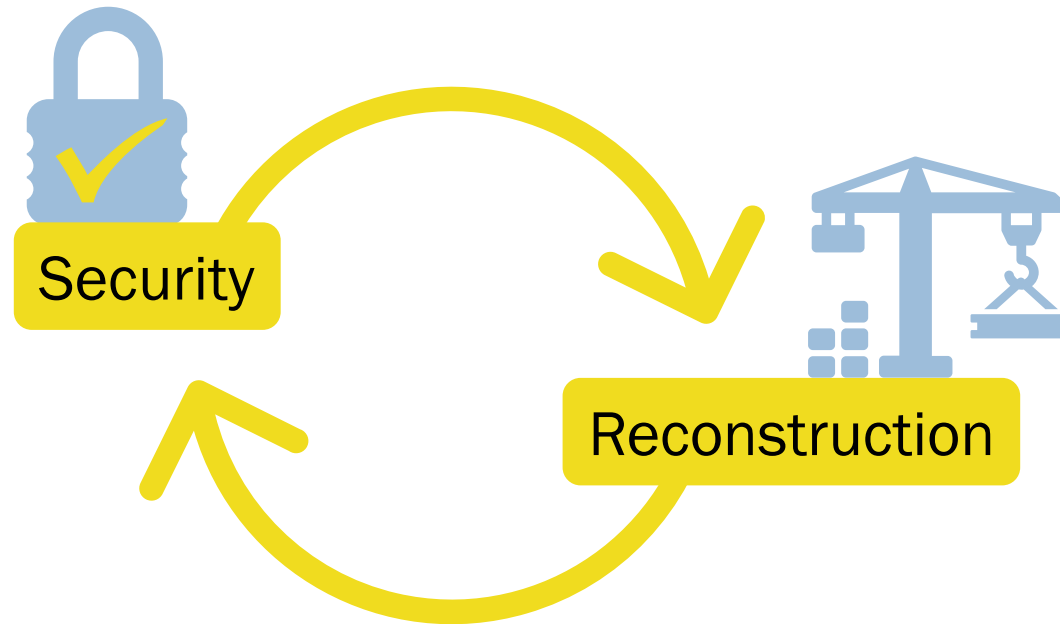


AID

How to establish effective coordination for Ukraine

| ROLE | FUNCTION |
|--|--|
| Senior Ukrainian minister | Establish priorities, direct national resources, engage with Ukraine's parliament, interface with international partners |
| Local governments | Drive competition and experimentation, provide decentralized decisionmaking |
| Senior coordinator in donor capitals | Work with other senior coordinators across countries and coordinate efforts within each country. |
| Representatives of supporting donors and institutions | Senior representatives to reside in Kyiv and maintain daily contact with Ukrainian authorities. |
| Senior independent Inspector General, and embedded experts | Ensure contracting is transparent and responsible to overcome international skepticism about reforms |
| Internationally supported effort for monitoring and evaluation | Define measures of policy effects; share analyses with Ukraine, assistance partners, and NGOs to foster transparency and learning |
| Special council to foster cooperation with key neighbors | Coordinate regional cooperation (e.g., transport, agriculture, energy, industry), especially with Poland, Moldova, Romania, Turkey, Bulgaria |

A key concept is that security reinforces reconstruction and reconstruction reinforces security



Goals of the West's security strategy:

- forge post-war security arrangements that deter Russia
- strengthen Ukraine's defenses
- motivate both sides to adhere to cessation of hostilities

Moscow's adherence to a deal will depend on deterrence

DETERRENCE OPTIONS



Commit to continued support for Ukraine's defense with arms, training, advice



Threaten to introduce Western forces into Ukraine if Russia renews aggression



Bring Ukraine into NATO





ASSESSMENT

Most straightforward, current policy

Could lack credibility: Western leaders and NATO stated they would not take this step in response to 2022 invasion

Surest guarantee of deterrence against Russian attack; might be hard to achieve

What kind of deterrence arrangements are enough?

-  Post-war security arrangements must contain provisions that both sides value over conflict
-  European security model offers binary choice: join NATO, or not
-  NATO membership may be most suitable way to guarantee Ukraine's security
-  But balance of power has changed: NATO might not need Ukraine to deter Russia, Ukraine might have support without NATO
-  Security for Ukraine may require new models, such as bilateral or multilateral security guarantees

Lessons for Ukraine from former reconstruction efforts

| COMPONENT | PURPOSE FOR UKRAINE |
|---|---|
| Reform | Ukraine's credibility will be on the line |
| Security | Essential to reconstruction |
| Senior coordinator with broad powers | Provide flexibility in meeting reconstruction goals |
| Trusted Special Inspector General | Implement effective monitoring |
| Aid conditionality | Motivate Ukraine to abide by agreement and pursue reforms, especially related to EU accession |
| Sequencing and prioritizing essential tasks | De-mining, rubble clearance, shelter, schools, basic medical care jumpstart reconstruction and help displaced people return |
| Engaging communities | Ensure communities are involved in setting priorities; balance community involvement and community capacity |
| Funding | Aid, private financing, Ukraine's own resources required; using Russian resources would require strong legal basis |
| Trade and investment | Strong links to global community to spur growth; domestic reforms to create inviting business environment |

What the United States should do now

Without security, reconstruction is not possible

- ▶ Engage with allies and partners, define arrangements for Ukrainian security and credible deterrence
- ▶ Approve modern version of laws that enabled U.S. activities in Central and Eastern Europe and former Soviet Union after the Cold War
- ▶ Appoint empowered coordinator for U.S. action and to deal with Europeans, international financial institutions, and Ukraine
- ▶ Develop and implement bipartisan efforts to build American support for longer-term policy in Ukraine
- ▶ Ensure assistance to maintain the Ukrainian economy and set the stage for longer-term recovery
- ▶ Work with allies and partners to ensure a successful Ukraine Recovery Conference in Berlin in June 2024

Viewing Ukraine's reconstruction through the lens of history

Integrating Ukraine into Europe institutions, economy, and society will be a capstone achievement



Bringing to fruition a *multigenerational* European project, supported by *consistent* U.S. security and economic policies, and sustained by an *enduring* trans-Atlantic partnership



RAND