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UKRAINIAN RECOVERY DIGEST SPECIAL EDITION BY KSE INSTITUTE

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01 ECONOMIC RECOVERY VISION OF UKRAINE

Ukrainian Government has presented its comprehensive vision for the country's reconstruction and development path during the Ukraine Recovery Conference 2023 (URC 2023) held in London. This strategic framework summarized the key areas for future reconstruction and delineated the visions for the development **with a focus on longer-term challenges, recovery needs, and specific projects** that need to be financed to progress Ukraine's recovery, across all sectors.

STRATEGY'S KEY HIGHLIGHTS:

1. **Trust and stability** will serve as crucial elements in Ukraine's reconstruction and development, fostering an environment conducive to attracting private investments. Key enablers:
   - NATO membership, ensuring security for businesses and encouraging the return of people.
   - EU membership, providing market access and serving as a catalyst for institutional reforms.

2. **Building a robust economy** is essential for ensuring security and freedom:
   - A bold objective of achieving a **$1 tn GDP by 2033** will strengthen Ukraine's economy, making it resilient, prosperous, and raising living standards to EU levels
   - It is anticipated that the post-war period will witness a rapid recovery of nominal GDP to pre-war levels within the first 1–2 years, driven by the restoration of maritime logistics, active construction development, and revived business activity;
   - Subsequently, nominal GDP is projected to grow by 20% annually (CAGR) through active recovery processes and investments across all key sectors;
   - Robust economic growth, combined with fiscal discipline, will enable enhanced defence capabilities and improvements in healthcare, education, and social services;
   - Post-war, the state's role in the economy will diminish, and GDP growth will allow for a reduction in the tax burden on businesses while ensuring essential budgetary requirements.

3. Ukraine will emerge as **an investment magnet**, leveraging a combination of the following factors:
   - Access to a reconstruction and development market worth **$500-900 bn**, along with unrestricted entry into the EU and G7 markets;
   - Strategic location, making it an optimal choice for production facilities and corporate headquarters;
   - Favourable conditions for development and digitalization of the economy, fostering an environment of freedom and innovation.

4. **The most significant investment opportunities** are concentrated in the following areas:
   - **Green Energy.** There are investment opportunities exceeding $400 bn over the next 20 years, including the construction of over 200 GW of solar and wind power plants and the production of more than 7 m tons of green hydrogen;
   - **Construction site of the century**. With investment opportunities of over $110 bn in the next 10 years, the restoration of residential buildings and social infrastructure presents a major construction opportunity;
   - **Part of the EU infrastructure system**. Ukraine aims to become part of the EU's fast green logistics system, with investment opportunities surpassing **$90 bn**. This includes the development of river shipping, modernization of railways, and digitalization of the road management system;

     One of the leaders in the green industrial transition. Ukraine possesses the prerequisites to emerge as a leading eco-friendly industrial producer. Investment opportunities of **over $60 bn** exist in areas such as green steel and aluminium production (46 m tons and 0.9 m tons, respectively), green nitrogen fertilizers (~7 m tons), lithium-ion batteries, and electric vehicles;
   - **The provider of food for 600 m people around the world**. The agricultural sector aims to achieve full vertical integration and localization, cultivating over 150 m tons of grain and oil crops with a processing rate of at least 50%. Investment opportunities of **over $55 bn** are available in this sector;
   - **A reliable source of critical materials**. Ukraine offers diverse mining investment opportunities worth **over $15 bn**, encompassing the full value chain of 10 strategic projects for the construction of mines or quarries. Additionally, approximately 20 new processing plants for titanium, graphite, manganese, lithium, nickel, rare earth metals, and other critical materials will be implemented in Ukraine.

5. Ukraine aims to become **a leading destination for business establishment in Europe** by implementing key measures:
   - Simplification of land-use conversion procedures;
   - Improved accessibility to utilities and grid connections;
   - Streamlined architectural and municipal approval processes;
   - Expedited "ready to shovel" status for projects;
   - Streamlined environmental approval procedures.

   The reconstruction process in Ukraine places significant emphasis on the role of small and medium-sized enterprises (SMEs). The government is committed to creating a favourable business environment in Europe, attracting private investments, and supporting the development of SMEs through state policies.

6. **State policies** in Ukraine encompass several key measures to drive economic growth and attract investments:
   - **Access to EU and G7 markets** through bilateral and multilateral trade agreements, aligning with EU membership requirements and technical standards.
   - **Comprehensive reforms in governance, judiciary, law enforcement, and business climate** to ensure transparency and accountability.
   - **Digitalization of public services**, including customs, land, taxes, and ownership, to enhance efficiency and facilitate a cashless economy transition.
   - **Implementation of a competitive tax system** in line with global standards to boost competitiveness, economic resilience, and investment attractiveness.
   - **Enhanced access to finance** through initiatives like the Ukrainian Development Fund, utilization of EU funds during EU accession, public offerings of state enterprises, and strengthening of financial markets.
   - **Modernization of the labour market** by revamping outdated labour rules to foster a dynamic and flexible job market. Strengthening independent regulators in areas such as antitrust, financial market/securities, and energy sector to ensure market competition, transparency, and growth.
   - **Streamlining tariffs in regulated sectors**, particularly energy and utilities, to incentivize private investment and ensure cost-effectiveness.
   - **Facilitating large-scale privatization** through transparent processes, promoting corporate governance reforms, and preparing state-owned enterprises for public share offerings.
   - **Introduction of a capital amnesty program** to encourage disclosure of undisclosed income/assets and boost the economy and tax base.
   - **Revision of public-private collaboration frameworks**, such as public-private partnerships (PPP) and concessions, to encourage private sector involvement in infrastructure projects.

KSE VIEW ON THE PRESENTED VISION:

We support the presented comprehensive vision of the country's economic recovery after the war. Ukraine's economic development goals appear to sound ambitious but attainable, in case there is a unity among all interested parties on the path to recovery - civil society, government, business, and international partners.

We see consolidation of different levels of government in their desire to build a strong and independent country, a Ukrainian dream. In Ukraine, there is a social demand for changes for the better, and the global crisis as a result of the war has created a window of opportunity for implementing institutional reforms that will improve the quality of state governance, create the most comfortable conditions for doing business and lead to an increase in the quality of life of every Ukrainian. Ukrainian people, thanks to their heroism and exemplary resilience, also have an unprecedented level of international support from all leading countries and international partners at all levels - from the citizens of countries to their governments.

01 VISION OF ECONOMIC RECOVERY OF UKRAINE

We see the main risks for the implementation of strategic goals in attracting necessary financing and ensuring the necessary number of people for the development of a sustainable economy. Large-scale reconstruction and development of the country require over $400 billion and $500-900 billion, respectively. To implement such large-scale projects, it is extremely necessary to attract private capital and to develop a plan for state policies aimed at improving the business climate and creating favorable conditions for financing.

To address demographic challenges, the Ukrainian government is working on programs for the return of refugees, integration of veterans and the adult population into the economy, stimulation of birth rate, and attracting foreign professionals to the recovery.

Measured, consistent, and balanced state policy will allow mitigating the main risks of development and building a developed and sustainable economy of the country to ensure freedom, security, and justice in Ukraine, Europe, and the world.

02 LONDON RECOVERY CONFERENCE

UKRAINIAN RECOVERY CONFERENCE

On June 21-22, 2023, the UK, in collaboration with Ukraine, hosted the international **Ukraine Recovery Conference (URC 2023)** in London. This conference built upon the foundation laid during the presentation in Lugano in 2022 and aimed to unite the world in its efforts to support the reconstruction process in Ukraine.

URC 2023 had a primary focus on mobilizing international support for Ukraine's economic and social stabilization and recovery from the devastating impact of war. The conference emphasized the need for emergency assistance to address immediate needs and the importance of financing private sector involvement in the reconstruction process.

The EU and G7 countries demonstrated their full commitment to supporting Ukraine as a unified community in the long term, pledging approximately EUR 55 bn for the country's post-war recovery. Specifically, **the EU intends to cover EUR 50 bn, which represents 45% of Ukraine's financial gap until 2027** (a total of EUR 110 bn, comprising EUR 60 bn for the fiscal gap and EUR 50 bn for fast recovery).

Significant progress was made during the conference, with the Government of Ukraine **securing practical support and investment** from its partners:

- The EBRD and other financial institutions supported the recovery of Ukraine in the memorandum;
- An agreement was signed between IFC, DFC, MIGA, and British International Investment on increasing the limit of trade financing for projects in Ukraine;
- An agreement was reached between the EBRD, Switzerland, and Great Britain on the launch of the military risk insurance market;
- With the Energy Community, the UK, the EU, and the G7 will start to work on a National Energy and Climate Plan that will outline the way forward for our vision for green energy, industry, and agriculture.

THE ATTRACTION OF PRIVATE INVESTORS

During the conference in London, the launch of the **Ukrainian Development Fund (UDF)** was officially announced. The UDF, established with the assistance of Blackrock, J.P. Morgan, and McKinsey, will serve as a National Development Finance Institution with a primary focus on attracting public and private sector capital for the reconstruction of Ukraine's post-war economy through blended finance. **The UDF will provide investments in the form of concessionary funds across five key sectors: energy (including green steel and hydrogen), infrastructure, agriculture, manufacturing, and IT. Both public and private contributors are involved in the UDF.**

Dr. Andrew Forrest, an Australian businessman and chairman of the Tattarang investment company, has pledged to invest $500 m in the UDF, demonstrating the commitment of private investors to Ukraine's recovery.

War risk insurance is a crucial tool for ensuring returns on private investments. **The Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, through the Trust Fund for the Support of the Reconstruction and Economy of Ukraine (SURE), will implement this insurance**. A significant development in this regard occurred during URC 2023 in London, when MIGA signed an agreement with the German bank holding ProCredit to increase the guarantee from approximately EUR 17 m to approximately EUR 41 m.

FUNDS TO FINANCE RECOVERY NEEDS

The primary fund utilized by the government to address recovery requirements is the **Fund for the Liquidation of the Consequences of Armed Aggression (Fund for the Liquidation)**, which has been allocated an updated budget of up to $1.4 bn for 2023, as confirmed by the Verkhovna Rada of Ukraine. The allocation of funds aims to address the most urgent needs, which may vary on a monthly basis. The current priorities identified for fund allocation include:

1. **Critical recovery projects** initiated by local governments and authorities ($160 m)
2. Protection of **critical infrastructure** objects ($270 m)
3. **Pilot project for the restoration of settlements** affected by armed aggression, following the "build back better" principle ($140 m)
4. Six settlements have been listed for reconstruction under this project. Implementation of projects by the **Reconstruction Agency** ($130 m, including $30 m for water supply infrastructure in areas affected by the **explosion of the Kakhovska Dam**)
5. **eRecovery program ("єВідновлення")** for compensating destroyed/damaged residential properties, with the first stage amounting to $110 m. The program has already commenced providing initial assistance for housing repairs
6. **Additional urgent needs** (approximately $400 m).

These allocations demonstrate the government's commitment to addressing various aspects of recovery and reconstruction in a targeted and comprehensive manner.

The Cabinet of Ministers of Ukraine has approved the initial list of projects to receive funding from the Fund for the Liquidation. **This list comprises 159 projects** located in the regions of Zhytomyr, Zaporizhzhia, Kyiv, Mykolaiv, Odesa, Sumy, Kharkiv, and Kherson. These approved projects encompass a wide range of initiatives, including the construction, rehabilitation, and reconstruction of residential buildings, medical facilities, schools, kindergartens, municipal infrastructure, as well as the development of civil defence structures, among others.

Furthermore, the Government of Ukraine has endorsed the procedure and conditions for allocating approximately **$122 m in subventions to local budgets**. This funding will be designated for the restoration and development of various infrastructure projects such as schools, hospitals, housing, and utilities. The source of these subventions is derived from the remaining funds allocated by the **European Investment Bank in the previous year**.

In May 2023, the Ministry of Development of Territories, Communities, and Infrastructure, in collaboration with its partners, launched the **DREAM (Digital Restoration Ecosystem for Accountable Management) state electronic ecosystem**. This platform provides a unified digital pathway for all reconstruction projects, ranging from damage assessment to the final operation of completed facilities. In June 2023, the platform became accessible online to the public, enabling transparent monitoring of the progress and implementation of recovery projects. Additionally, DREAM offers valuable information on investment projects and public-private partnership initiatives.

PROGRAM eRECOVERY ("єВІДНОВЛЕННЯ")

In May 2023, the Government of Ukraine introduced the eRecovery program, which aims to assist individuals whose homes were damaged during the conflict in making necessary repairs and improving their living conditions.

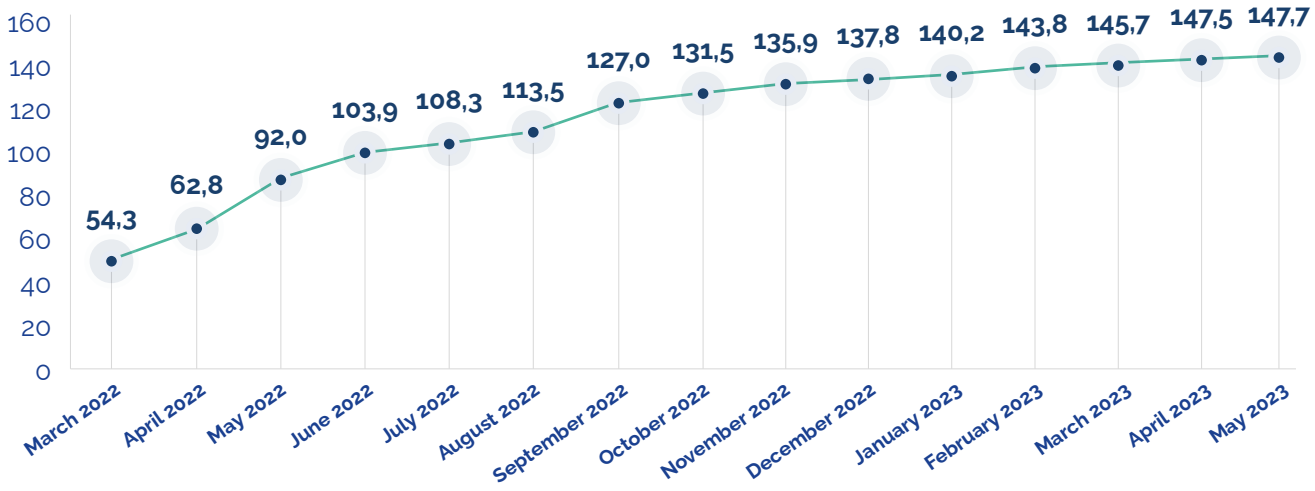
As of June 21, over 20,300 applications have been submitted through the program, and local authorities have established 482 commissions to support and guide affected individuals throughout the recovery process.

03 DAMAGES. KAKHOVKA IMPACT

«RUSSIA WILL PAY» PROJECT

As of May 2023, marking the 15th month of the full-scale war, **the documented direct damages** to Ukraine's infrastructure caused by Russia's invasion **have reached $147.7 bn** (at replacement cost). The monthly growth amounted to $200m, a relatively low figure compared to previous months, reflecting the stable front line and the effective performance of the air defence system in countering long-distance attacks by missiles and drones.

Figure 1. Direct damages growth dynamics as of May 2023, $ bn



Source: KSE Institute

Figure 2. Direct damages breakdown by sectors as of May 2023, $ bn

Source: KSE Institute

Comprehensive and up-to-date reports, along with interim releases, of the damage assessments are always available on the KSE website. You can access them through the following link: https://kse.ua/ua/russia-will-pay/

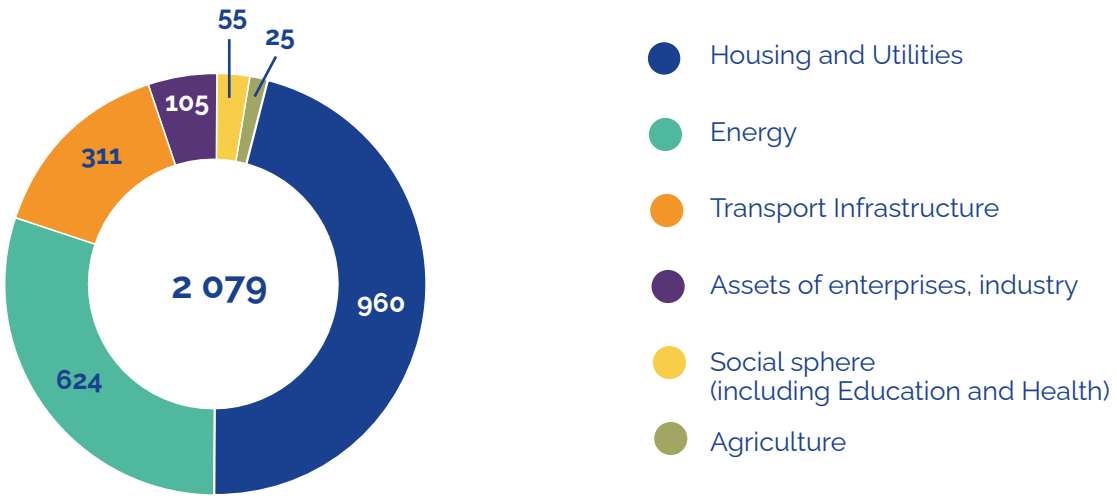
03 DAMAGES. KAKHOVKA IMPACT

KAKHOVKA POWER PLANT DAM DAMAGES

The explosion at the Kakhovka Hydroelectric Power Plant Dam has resulted in direct damages of at least $2 bn to Ukraine, as per initial calculations by KSE Institute.

The tragedy has caused significant harm to the residential, communal, and energy sectors, as well as indirect losses to agriculture due to the loss of irrigation in the affected region. This analysis is part of the "Russia Will Pay" project conducted by KSE Institute (the analytical division of Kyiv School of Economics) in collaboration with the Office of the President of Ukraine, Ministry of Economy, and Ministry for Communities, Territories, and Infrastructure Development of Ukraine.

Figure 3. Assesments of damages caused by Kahovska dam explolion, $ m



Source: KSE Institute

The housing sector in Kherson and Mykolaiv regions has been particularly affected, with 49 and 31 cities, towns, and villages experiencing damages. In rural areas of the Mykolaiv region, over 500 private houses have been flooded. In the Kherson region, due to partial temporary occupation, it is challenging to determine the precise number of damaged or destroyed residential buildings. **However, preliminary estimates indicate that approximately 20,000 to 30,000 houses, including at least 150 multi-story buildings in Kherson city, have been affected by flooding**. Direct damages from the flooding, including private houses and related infrastructure, are estimated at $950m, primarily concentrated on the left bank of the Dnipro River, which is currently under temporary occupation. **Satellite imagery analysis and modelling are being used to assess the number and area of flooded buildings within the affected zone, and as of current calculations, approximately 32,000 buildings are at risk.**

03 DAMAGES. KAKHOVKA IMPACT

In 2023, Ukraine will face expenses for the construction of water pipelines to address the water supply shortage caused by the decrease in the Kakhovka Reservoir's water level. The Dnipropetrovsk, Zaporizhia, Mykolaiv, and Kherson regions are at risk of water scarcity. To mitigate the hydroelectric power station's destruction, the budget committee has allocated $41m (UAH 1.5 bn) for main water pipeline construction.

The energy sector has suffered significant damages, accounting for over a quarter of the total losses caused by the hydroelectric power plant explosion, **reaching $624m**. The destruction of the Kakhovka HPP, with its capacity of 334.8MW, and the dam contribute to these damages. The state-owned company Ukrhydroenergo faces annual economic losses exceeding $100m. **Restoring a new hydroelectric power plant of the same capacity would require nearly $1 bn.**

The flood has also affected electrical grids, resulting in the loss of power in the affected areas, and flooding of 17 fuel stations and 2 oil depots.

Transport infrastructure damages amount to $311m, with over 290 km of roads affected by the flood. Municipal roads account for more than 50% of the damage, and some international and regional roads have been submerged. While traffic on the right bank of the Dnipro River has been restored, some bridges and smaller dams in the Mykolaiv and Kherson regions experienced temporary flooding, potentially impacting long-term costs.

The industrial sector and other businesses have incurred damages estimated at $105m as a result of the explosion. Some enterprises had already relocated or ceased operations due to the ongoing conflict, mitigating the flood-related losses. Heavy equipment and buildings are among the most affected assets, including large industrial facilities in Kherson's Korabel district. Local administration reported 28 major industrial facilities on both sides of the Dnipro River were flooded.

The agricultural sector has incurred damages totalling $25m, primarily from the destruction of crop plantations, livestock, and fish stocks. However, the extent of damages has been limited due to continuous shelling in the affected territories, hindering active utilization of agricultural land. Additionally, the flood has only affected a relatively small area of agricultural lands.

The Kakhovka Reservoir, which served as a vital water source for irrigation and livestock farming across 584,000 hectares of land (262,000 hectares before the war), has incurred significant indirect losses. **Crop production is projected to experience an annual increase of $182m in losses, while other industries may lose up to $49m per year.**

The environmental damages caused by the explosion are estimated at approximately $1.5 bn, according to the Ministry of Environmental Protection and Natural Resources. Around 150 tons of oil leaked during the dam explosion, leading to a decrease in the salinity level of the Black Sea near Odesa, which is now nearly three times lower than the norm.

03 DAMAGES. KAKHOVKA IMPACT

Several nature reserves, including "Nyzhniodniprovskyi," "Kamianska Sich," "Biloberezhzhia Sviatoslava," and the UNESCO-protected Black Sea Biosphere Reserve, are at risk of flooding. The Regional Landscape Park "Kinburn Spit" and sections of the Black Sea Biosphere Reserve, such as Volyzhyn Forest, Dovhyi Island, and Kruhlyi Island, have also been impacted. The flooding has affected the Regional Landscape Park "Vysunsko-Inhuletskyi" as well.

It is important to note that this report presents only the initial calculations conducted by the "Russia Will Pay" project in collaboration with the Office of the President, Ministry of Economy, Ministry of Recovery and other agencies. Ongoing assessments may reveal higher numbers of damages.

**The assessment of flooded houses was carried based on the assessment of the population before the invasion. However, currently, an evaluation is underway to determine the number and area of flooded buildings through satellite imagery analysis and modeling, which may reveal a larger number of affected objects.*

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