

Stockholm Conference on Private Sector Engagement in Ukraine's Recovery and Reconstruction

Accelerating Ukraine's Economic Recovery

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Grow Ukraine's Economy Now

The time for action to accelerate Ukraine's economic recovery is now. Ukraine's economic reconstruction and recovery must not be the consequence of victory, but the pathway to victory. Ukraine must build while fighting.

Nearly 16 months after Russia's full-scale invasion, it already is clear that Ukraine will survive as a sovereign, independent, European democracy, with a pathway toward EU membership. Russia will not succeed in erasing Ukraine's national identity, toppling its government, or seizing more Ukrainian territory. Large areas of Ukraine are safe and open for business, except for Russian air raids which are largely thwarted by Ukraine's air defenses and have no strategic impact. Investors and governments who have been reluctant to invest resources in Ukraine's reconstruction should hesitate no more. Indeed, those who invest early will reap the largest returns.

At this year's Ukraine Recovery Conferences, several steps should be taken. Past conferences – such as Lugano in July 2022 and Berlin in October 2022 – have offered shared principles for reconstruction, but no concrete programs and structures. This year's conferences in Stockholm (June 8) and London (June 21-22) should produce specific programs and structures, to be implemented with consistency going forward.

Create a Permanent Executive for Ukrainian Recovery

The most critical need is to create a permanent executive structure that is focused exclusively and intensively on Ukraine's economic recovery. This could be considered as an “upgrade” of the existing multi-donor coordination mechanism, currently co-chaired by the EU, United States, and Ukraine and organized under G7 auspices.

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The goal should be to create a consistent, high-level and highly active mechanism to promote the implementation of ideas and programs for Ukrainian reconstruction. It should fill the gap between the annual recovery conferences. While programs would still be carried out by each of the various national and multinational stakeholders through their own mechanisms, such an executive structure would focus these efforts, provide greater coordination and consistency, and seek to pair resources and capabilities with evolving needs in Ukraine. For example, one of the most pressing needs at the moment is a clear prioritization of reconstruction goals, and the development of a pipeline of finance-ready projects. An executive structure could work directly with Ukrainian authorities to address these needs.

Such a structure would be best placed under the auspices of the annual Ukraine Recovery Conference, which has a wider base of stakeholders than the G7. It should be Chaired by a senior European statesman, such as a former Prime Minister, and augmented with board members (or senior advisors) who would be high-ranking nationals of various stakeholder states, from G7 and non-G7 countries alike. An Executive Director and support staff should be established to conduct day-to-day work, perhaps building on the EU-led staff in Brussels already established to support the G7's coordination mechanism. This will require a modest amount of funding, ideally provided on a voluntary basis by supportive states.

To inform the work of such a permanent executive, a standing Private Sector Advisory Council – made up of international and Ukrainian businesses – should also be established. No one is better placed to advise both the international community and the Ukrainian government on obstacles to investment and policies that need to be adopted than those who with their own resources are trying to invest in Ukraine.

Public Funding Versus Private Investment

Even with a focused, permanent executive, there must be no illusions. Public funding will never be large enough, trusting enough, or self-sustaining enough, to rebuild Ukraine as a whole – nor should it be. There will be no single fund handed over to Ukraine for the Ukrainian government to use at its discretion for reconstruction projects. This year's Ukraine Recovery Conferences must prioritize actions to attract and enable private sector investment in Ukraine.

International public funding can cover humanitarian aid, infrastructure investment, demining, war risk insurance, and other public goods. Private investment, based on sound business models, will create jobs, self-sustaining economic growth, rising GDP, and higher tax revenue for Ukraine's own national budget. International, government-provided assistance and financing will be important – but the purpose of public funding must be to create the conditions for even greater flows of private-sector-led economic growth.

Private-sector-led economic growth will lead to rising incomes and tax revenues, which are necessary for paying for Ukraine's defense needs, health care, pensions, and government salaries. Up to this point, the European Union and the United States are subsidizing Ukraine's budget at 3bn Euro per month. This level of subsidy cannot be sustained indefinitely. A growing Ukrainian economy will reduce the level of subsidy needed.

A growing Ukrainian economy, fueled by foreign investment and assistance, will create the conditions for accelerated refugee returns from EU states. It will also build connectivity between the Ukrainian and EU economies, facilitating Ukraine's eventual EU membership, and signaling to Russia that even in the long term, Russia will not succeed in eliminating Ukraine.

Unlocking Private Investment

There is no shortage of businesses and investors who are interested in taking part in Ukraine's economic renewal. Some have already made significant investments even during the past year of conflict, such as in renewable energy production.

But there are two key factors that deter many investors from putting their resources into Ukraine right now: concerns about security and about the rule-of-law climate. Both must be addressed.

Dealing with the Security Challenge

The most important factor holding back private sector investment in Ukraine is security – both in a micro sense (risk of war damage to a single investment) as well as a macro sense (guarantee of Ukraine's future as a sovereign, rule-of-law driven, secure country).

In the micro sense, the international community must establish a system of war risk insurance to cover investments where normal private insurance drops off. This can be done at several levels. In the immediate term, this can be through the Multilateral Investment Guarantee Agency (MIGA) at the World Bank. Though currently modest in size, MIGA could be beefed up with substantially more funding. Ideally, currently frozen Russian Central Bank assets could be placed in a trust fund and used as a pool of funds to guarantee an insurance program. The funds would be unlikely to be drawn upon – and if so, only to compensate for damage caused by Russian military actions in Ukraine.

In the medium term, the European Bank for Reconstruction and Development (EBRD) can establish an even larger fund for providing war risk insurance for investors in Ukraine. Most importantly, development finance and credit guarantee agencies from individual states should provide insurance to investors from their own nations. Because governments would be assisting their own national businesses with investments, these programs could be even larger and more politically sustainable in the long run than providing public resources to multinational mechanisms.

In the macro sense, there will be no economic recovery without security for Ukraine as a whole. Investors need to know that in addition to their individual investments being insured, Ukraine will be a secure, sovereign, independent state. This kind of security concern must be addressed through a system of strong, credible security assurances for Ukraine – something that is already intense discussion among many NATO allies and Ukraine. The best assurance is a pathway for Ukraine to obtain NATO membership itself, which seems increasingly inevitable once the war is over. It is difficult to imagine Ukraine being admitted to the European Union without it also becoming a member of NATO.

Whatever the mechanism, however, it is vital that some interim assurances be articulated as soon as possible – for example, at the Vilnius NATO Summit in July 2023 – in order to establish confidence in Ukraine's long-term economic recovery.

Ukraine's Progress on Rule of Law and Reform

The other major factor of concern to investors is a lingering worry about the rule-of-law environment in Ukraine. Investors are conditioned to be cautious, given Ukraine's history of corruption, oligarchs, and a tainted judiciary. To address this, Ukraine needs to proactively adopt European laws, regulations, and implementation standards – the EU *acquis* – as quickly as possible. This is essential not as a matter of “conditionality” to warrant foreign aid

from governments and multilateral institutions, but to give confidence to the private sector and attract substantial levels of foreign investment.

Ukraine should swiftly adopt the EU acquis independent of any EU decisions on opening accession negotiations. The EU should provide all possible means of technical assistance to Ukraine in implementing such reforms, while maintaining a forward-leaning posture on Ukraine's eventual EU membership. It should be clearly understood that doing so will speed up the process of accession negotiations whenever they begin.

Typically, nations take a slower approach on adopting the EU acquis to avoid sudden, heavy transition costs. Due to Russia's war, however, Ukraine is already going through a major shock to the economy. The risks of a speedy approach to adopting the EU acquis are far lower than not doing so, and thus failing to attract the levels of investment needed to jump-start the economy.

Open the Port of Odesa

The great port of Odesa — which is actually a network of several ports — is the lifeblood of Ukraine's export economy. The country's road and rail network to Europe is already functioning at full capacity, and yet is nowhere near robust enough to accommodate all of Ukraine's potential imports and exports.

The UN-brokered grain corridor allows a severely restricted flow of grain out of Ukraine's ports to reach global consumers. In doing so, however, it in effect legitimizes Russia's blockage of all other normal, sea-based trade in and out of Ukraine. This is devastating for Ukraine's economy.

As nations prepare to gather at this summer's Ukraine Recovery Conferences, no step would have greater immediate impact on Ukraine's economy than opening the port of Odesa for normal commercial shipping, particularly container shipping. Time is of the essence, as Ukraine's 2023 harvest will produce at least 60 million more tons of grain which should flow unimpeded to global markets.

Opening the port of Odesa is an economic task more than a military one. Ukraine has already pushed Russia's warships far away from non-occupied coastline and territorial waters. Russia's threats to international shipping are thus principally aimed at non-Ukrainian flagged vessels operating in international waters. It seems highly unlikely that Russia would conduct a military strike in open waters against a third-party merchant vessel.

To begin the process of restoring normal shipping in the Black Sea, western nations should meet with Turkey, Romania, Bulgaria and Ukraine to discuss practical needs. For example, how best to maintain and expand the existing "green channel" through which ships pass without risk of hitting mines, and how to bring in additional demining capability to the Black Sea to enhance the safety of maritime transport.

Action Must Follow Words

As Ukraine mounts its counter-offensive to push Russian forces from its territory, Ukraine and the international community must also launch an economic counter-offensive: to begin building a better and stronger Ukrainian economy that will power Ukraine through the war and pave the way for Ukraine's eventual EU membership.

As with past Ukraine Recovery Conferences, this year's conferences will no doubt showcase extraordinary solidarity and support for Ukraine. But this year, it is time not only for words, but for action.