



International Expert Conference on the Recovery, Reconstruction and Modernisation of Ukraine

Berlin, 25 October 2022

Conference Report

Background and Expert Recommendations

Conference Background and Objectives

Russia's appalling war of aggression against Ukraine is causing immense human suffering, displacement, and destruction of critical infrastructure. The international community stands firmly with Ukraine and is resolved to support its recovery, reconstruction and modernisation towards a sustainable, democratic, and prosperous future, in line with its European path.

To this end, Chancellor Olaf Scholz, in his capacity as G7 Presidency, and President Ursula von der Leyen for the European Commission – in close cooperation with the Government of Ukraine – co-hosted the *International Expert Conference on the Recovery, Reconstruction and Modernisation of Ukraine* on 25 October 2022 in Berlin. The Conference convened world-renowned experts and policymakers across various disciplines and backgrounds, including Heads and specialist senior representatives of International Organisations, Ministers and senior delegations from across G7, G20, EU and beyond, think tanks and academics, as well as representatives from civil society and the private sector, together with the Ukrainian government to discuss and put forward recommendations for the recovery, reconstruction and modernisation of Ukraine.

Following [opening remarks by Chancellor Scholz](#) and [President von der Leyen](#) as well as a [keynote address by the President of Ukraine, Volodymyr Zelenskyy](#), the Opening Plenary saw Heather Conley, President of the German Marshall Fund, facilitating a representative panel of Leaders and Senior Ministers, namely Ukrainian Prime Minister Shmyhal, President of the Swiss Confederation Cassis, Polish Prime Minister Morawiecki, OECD Secretary General Cormann and UK Foreign Secretary James Cleverly, who each offered international perspectives on Ukraine's geopolitical and economic outlook and the scale of its recovery and reconstruction needs. In doing so, the Opening Plenary underlined the united and resolute political will of the international community to move forward in support of Ukraine. Russia's responsibility in the aggression against Ukraine was stressed by all participants, of whom some raised the idea of exploring options aimed at using frozen assets to support Ukraine's reconstruction.

The expert discussions, organised around five thematic panel sessions, focused on lessons learned from historical reconstruction efforts, pathways for financing the recovery and reconstruction, including the architecture of a financing governance framework. The sessions covered key aspects of recovery and reconstruction, ranging from institutional transformation, good governance and inclusiveness, macroeconomic and financial stability to industrial strategy and development – with sustainability, global integration and the path to EU accession at the centre.

Evaluating the outcomes and looking ahead in their closing remarks were the Prime Minister of Ukraine, Denys Shmyhal, the Prime Minister of Japan, Fumio Kishida (in his capacity as



incoming G7 Presidency), the President of Indonesia, Joko Widodo (G20 Presidency 2022), President von der Leyen and Chancellor Scholz.

This Conference report highlights the discussions as well as the expert recommendations they brought out, which will advise the ongoing and long-term global efforts to support Ukraine and its democratic and prosperous future.

Overview of Thematic Sessions and Expert Recommendations

The five thematic sessions of the *International Expert Conference on the Recovery, Reconstruction and Modernisation of Ukraine* were designed to stimulate debate and discussions among Panellists and with the audience. Each session was led and facilitated by expert Moderators.

The reflections and recommendations capturing the key outcomes of the panel discussions were provided by the invited experts. They **do not necessarily represent the official positions and opinions of Germany nor the German G7 Presidency, the European Commission, the Government of Ukraine or any Government or organisation involved in the *International Expert Conference on the Recovery, Reconstruction and Modernisation of Ukraine***. The recommendations are provided in no particular order of priority, but rather following the timeline of the panels and points discussed by the experts.

- **Session 1: Lessons from Recovery Efforts of the Past**

This session evaluated the present situation in Ukraine in the light of lessons learnt from historic reconstruction and recovery examples, including the Marshall Plan and that of the Balkans.

- **Session 2: Recovery and its Financing**

This session explored optimal conditions to foster financing, as well as models of governance built on strong ownership by Ukraine, international coordination and synchronisation with the EU accession process.

- **Session 3: Institutional Transformation, Good Governance and Inclusiveness**

This session delved into the various priorities for inclusive recovery, sustainable growth and development, and modernisation of institutions, including with a view to EU accession. The session also highlighted the role of local communities and civil society.

- **Session 4: Macroeconomic and Financial Stability**

This session considered the impact of war on Ukraine's economic model and pathways to create a stable economic environment necessary for domestic and foreign investors and private funding for reconstruction.

- **Session 5: Industrial Policy and Sustainable Development**

This panel evaluated how to modernise Ukraine's industrial strategy, forge new trading relations, and attract foreign investment, stressing the importance of research and innovation, the green and digital transitions and long-term sustainability.

Session 1: Lessons from Recovery Efforts of the Past

Panellists:

Moderator: Ulrike MALMENDIER, Professor of Economics, University of California, Berkeley and German Council of Economic Experts

- Alexander RODNYANSKY, Presidential Adviser, Ukraine; Assistant Professor of Economics, University of Cambridge
- Margaret MACMILLAN, Professor of History, University of Toronto
- Albrecht RITSCHL, Professor of Economic History, London School of Economics

Summary of the Discussions

History provides a wealth of experience in post-war recovery. While no two such efforts can be identical, history offers insights – from post-war Europe and unprecedented support of the Marshall Plan, to general modernisation in Central and Eastern European countries after the fall of the iron curtain.

Such historical insights are particularly valuable in **developing a medium- and long-term post-war perspective**. After the atrocities and destruction of war, it is natural to focus efforts on reconstruction, in particular physical infrastructure. Yet it is critical not to overlook the longer-term fallout of crises, whether economic crises, natural disasters, political turmoil or war. Traditional economic logic would imply that markets, institutions, and people would behave as before upon fully rebuilding a country and economy to the *status quo ante*. Yet modern research in economics, history, psychology, and neuroscience alerts us of the severe long-run consequences of crises. The experience of severe crises alters behaviours, beliefs, and worldviews for years, if not decades, and these differences must be anticipated. It is not enough, therefore, to rebuild a country and to return to the *status quo*. The scarring effects of a war leave deep traces, and the recovery and reconstruction should account for them.

The logic of deep experience effects applies here, meaning that a **recovery based on inclusiveness and national ownership** can shape a country for years to come. How people experience the post-war times, which paths are laid out, and what they can achieve and how, will have long-lasting ramifications. For example, the restoration of public confidence in its own capabilities was a crucial element of post-World War II reconstruction. Different experience will foster different post-war development, from persistent mistrust, fear, and pessimism, to the rebuilding of trust and confidence and striving for progress and innovation.

The discussion highlighted historical examples on both ends of this spectrum. At the positive end, one insight from history is that **early recovery planning, even during continued conflict**, can set the path towards successful recovery and long-term sustainable growth,

economically, institutionally and culturally. Planning European reconstruction following World War II started even before the United States was drawn in, in the early 1940s. Such planning better captures the human impact and uncertainty that abounds, and gauges the less visible long-term consequences or scarring effects.

Moreover, **interplay between destroyed regions, domestic politics and the international order** was demonstrated to play a significant role, across various 20th century case studies. For example, the Marshall Plan, given the political context of the Cold War, may be considered to have been deliberately crafted for building political support to the ‘West’ by excluding much of Eastern Europe and the Soviet Union. In today’s context, the international effort for Ukraine’s reconstruction is at the core of the future international order, including for those countries currently not taking sides.

The debate also brought out **the role institutions play in governing and coordinating recovery and reconstruction**, including incentives and support for reforms. For example, pre-accession status transformed the Central and Eastern European Countries and the Baltics in the 2000s, including on institutional reform and integration. In this context, a holistic framework of political, institutional, and cultural investment and with clear timelines, could prove central to Ukraine’s successful reconstruction.

History demonstrates the **long-term effectiveness of economic integration** with emphasis on productivity and export-led growth as a medium- to long-term focus. The Marshall Plan served ultimately to not only rebuild Europe, but to bring it out of American economic assistance and onto an extraordinary growth path. In beneficiary countries with a strong local economic administration, the Marshall Plan was an effective instrument while retaining strong US leverage via monitoring and reporting commitments.

While the US had been the single hegemon post-World War II, the situation differs dramatically with the EU as the main anchor point for economic integration. Strategic recovery linked with EU accession planning and wider reorientation would likely provide the significant pull factor and trigger for the Ukrainian national recovery and its long-term growth and prosperity. In parallel, institutions like the World Bank and the IMF, who had not yet existed during Europe’s reconstruction, stand ready to play their part in tandem.

The discussion also highlighted the **importance of energy supply for economic recovery**, emphasising again the need for long-term perspective. Historically, energy supply was a crucial element of post-World War II reconstruction efforts. The same applies to Ukraine. Yet in today’s fossil fuel energy crisis, ways of supplying renewable energy to industries and households must be rapidly found, not only for Ukraine but Europe. Ukraine’s renewable energy potential is a promising – if partial – solution to that challenge. The Build Back Better agenda for the pandemic recovery serves as a reminder to leapfrog investments in future-oriented green recovery aligned to the European Green Deal.

More immediately, discussions highlighted the need for **close donor coordination** alongside in-country efforts. Post-war Ukraine should aim to focus on importing international best practice and strong institutions and standards for governance, rather than foreign capital. To attract all types of financing as effectively as possible, choice of architecture is crucial and could be informed by agencies and quasi-ministerial bodies or the creation of a new fund or bank (like that of KfW in Germany following the Marshall Plan), taking into account existing institutions with similar mandates.

The use to which investment and capital are put, and their ultimate effectiveness, will depend on **clear, long-term vision**, which appreciates that post-war Ukraine will be a different country and an altered society, even if perfectly rebuilt to the *status quo ante*. Of first-order importance will be creating institutions that set the path towards the rebuilding of trust, confidence, entrepreneurship, and innovation across a vibrant civil society and free media.

Expert Recommendations

- Early recovery planning: make plans for post-war reconstruction before a conflict or war ends.
- Even when addressing short-term needs, the mid- and long-term consequences of all decisions must be evaluated.
- Focus on the broader economic and social recovery, not only the immediate reconstruction of physical infrastructure, but the basis for an EU-aligned, integrated, and export-oriented Ukrainian economy, targeting productivity growth while avoiding large capital imports and legacy debt.
- Agency is essential. Reconstruction requires close cooperation of all involved actors with on-the-ground institutions to avoid duplication of efforts and ensure alignment with the government's recovery plan.
- Economic reconstruction cannot be separated from domestic and international politics. Strong leadership and good diplomacy are essential, to garner and retain international support.
- The international community, together with the Government of Ukraine, must work together to build strong and well-functioning civil institutions and effective governance.

Session 2: Recovery and its Financing

Panellists:

Moderator: Markus BRUNNERMEIER, Professor of Economics, Princeton University

- Kristalina GEORGIEVA, Managing Director, International Monetary Fund (IMF)
- Odile RENAUD-BASSO, President, European Bank for Reconstruction and Development (EBRD)
- Werner HOYER, President, European Investment Bank (EIB)
- Oleksii CHERNYSHOV, Minister for Communities and Territories Development, Ukraine
- Michael HARMS, Executive Director, German Eastern Business Association

Summary of the Discussions

The discussion framed Ukraine's recovery and its financing across three phases to ensure long-term resilience:

Phase 1 – During Combat and Martial Law: This phase focuses on immediate needs, including monitoring destruction, restoring damaged critical infrastructure, and establishing a *Ukrainian restoration fund*. The main objective is to keep the economy functioning and provide for basic needs of the population. Funding is needed to provide, for example, mobile water treatment units, thermal power stations, diesel generators, electric indoor heaters.

Phase 2 – Transition to Free Market Economy (1-2 years after combat): During this phase, reconstruction focuses on removing bottlenecks, building basic infrastructure and housing and the development of a transitional economic model. Reimmigration also needs to be organised.

Phase 3 – Reinvigorating and Reinventing a Sustainable Economic Model (10-20 years): The Marshall Plan can act as a role model, but advancement in digitalisation might allow a better civil engagement, including to fight corruption.

Across these three phases there is a need to **act speedily** to sustain the economy (**Phase 1**), ensuring that support remains for the **long run (Phases 2 and 3)**. The prospect of Ukraine's accession to the EU serves as an anchor to ensure that efforts can be sustained in the long-run.

In practical terms, the discussions highlighted the following practical considerations:

Firstly, any financing has to be preceded by **the competent assessment of needs** across these three phases. The direct damages incurred between 24th February and 1st June 2022 accumulate to roughly USD 100 billion while the total reconstruction and recovery needs for the same period are estimated at around USD 350 billion per [Rapid Damage and Needs Assessment](#) carried out by the World Bank jointly with the Ukrainian Government and the European Commission. The International Financial Institutions (IFIs), including the IMF, together with the Ukrainian authorities, should specify macroeconomic parameters and help to define and quantify the financing gap.

Types of Financing Models: On the question of grants, loans, or guarantees, one main lesson from the history of the Marshall Plan was that reconstruction efforts (Phases 2 and 3) are more successful if legacy debt is first restructured (or forgiven). Hence, support in **Phase 1** is more forward-looking if it is provided in form of grants rather than in loans.

To appropriately allocate risk, co-financing models as well as pure liquidity support can be considered. The pure liquidity model helps to overcome temporary funding gaps and involves limited default risk for the lender. However, the financing needs for Ukraine, especially in **Phases 1 and 2**, involve significant risk-taking and risk-sharing with IFIs. Hence, co-financing arrangements are preferable to a tranching financing model, in which IFIs simply fund the least risky senior tranche (which is paid off before more junior tranches). The EBRD would be willing to co-finance projects with 50% coming from the EBRD and the rest from other (possibly private) institutions. Any losses are equally shared between EBRD and other lenders. The EIB is also willing to extend risky loans as it can diversify across projects and share risk with other funding sources. Emphasis should be placed on investments with public and common goods characteristics, focusing on small and medium enterprises.

Specific projects can be digitally collateralised with revenue streams, for example, tolls from highways. Making use of digitalisation allows to collateralise revenue streams from multiple projects. In any case, it is important to provide the legal basis for these financing arrangements.

Crowdfunding and remittances from Ukrainian expatriates can constitute an important additional source of funding. The Ukrainian government can issue general **bonds** or specific project bonds. To promote these bonds, G7 countries could offer a favourable tax treatment for holder of these bonds. **“Town twinning” or city partnerships** between Ukrainian and European cities can not only open additional crowdfunding channels, but also promote the exchange of best practices and technology transfer as well as civil engagement, especially in fighting local corruption practices.

Public-private partnerships and other forms of public guarantees, even limited ones, from IFIs and G7 partners would make it easier for the private sectors to invest. A functioning and reliable Ukrainian **legal framework, jurisdiction and enforcement** is paramount. The impressive perseverance and commitment of the Ukrainian population may support private funding. For any foreign project financing, it is important to avoid **geopolitical dependencies** and future **debt traps**.

Any reconstruction effort needs strong Ukrainian ownership, and ways to limit possible corruption. **Civil engagement** by Ukrainian society is central in ensuring both objectives. The fact that Ukraine has a competitive edge in **digitalisation** helps to engage private citizens. For example, an anti-corruption mobile app for citizens is a useful tool, provided that the feedback is passed on to Kyiv and possible platforms in Brussels. In addition, blockchain technology could be used to enhance transparency and reduce fraud and corruption risks. Transparent practices, accountability and a free and active investigative media landscape can contribute to ensure that funding is used as wisely as possible.

Another way to enhance governance structures for financing reconstruction is to exploit Ukraine's federal structure. A federal structure enables backyard **competition across regions as well as regional experimentation**. Transparency is key, while success and failures across regions should be stored in a centralized database to enable learning from best (and worst) practices.

Finally, in considering **platforms for financing coordination**, each IFI should bring in their specific risk-bearing capacity and expertise to the table. A combination of two platforms were proposed to coordinate the financing provided by IFIs:

A political platform at a senior level to coordinate financing among donors and Ukrainian authorities. EIB, EBRD and IMF are not in competition but complementary to each other.

An operational platform to share information, discuss necessary steps as well as sequence and coordinate with local authorities.

Expert Recommendations

- There is a need to act speedily to sustain the economy during the current combat and martial law situation, while ensuring that support remains for the long run. The prospect of Ukraine's accession to the EU serves as an anchor to ensure that efforts can be sustained in the long-run.
- Any financing has to be based on a thorough assessment of needs, across all phases of the reconstruction and recovery. The International Financial Institutions (IFIs), including the IMF, together with the Ukrainian authorities, should specify macroeconomic parameters and help to define and quantify the financing gap.

- Support for reconstruction during conflict is more forward-looking if it is provided in form of grants rather than in loans.
- To appropriately allocate risk, co-financing models as well as pure liquidity support can be considered. The latter helps to overcome temporary funding gaps and involves limited default risk for the lender. However, the financing needs for Ukraine, especially during the conflict and initial recovery steps after the conflict involve significant risk-taking and risk-sharing with IFIs, making co-financing arrangements preferable to a tranching financing model.
- Crowdfunding and remittances from Ukrainian expatriates can constitute an important additional source of funding. The Ukrainian government can issue general bonds or specific project bonds. To promote these bonds, G7 countries could offer a favourable tax treatment for holder of these bonds. “Town twinning” or city partnerships between Ukrainian and European cities can open additional crowdfunding channels.
- Public-private partnerships and other forms of public guarantees, even limited ones, from IFIs and G7 partners would facilitate private investment, based as well on a functioning and reliable Ukrainian legal framework, jurisdiction and enforcement.
- Any reconstruction effort needs strong Ukrainian ownership, and ways to fight possible corruption. Civil engagement by Ukrainian society is central in ensuring both objectives.
- Another way to enhance governance structures for financing reconstruction is to exploit Ukraine’s federal structure, which enables backyard competition across regions as well as regional experimentation, and Ukraine’s high digital penetration that enables civil engagement with mobile phone apps to ensure an efficient use of funds. Transparency is key.

- A combination of two platforms could be considered to coordinate the financing provided by IFIs:
 - A political platform at a senior level to coordinate financing among donors and Ukrainian authorities. EIB, EBRD and IMF are not in competition but complementary to each other.
 - An operational platform to share information and discuss necessary next steps.

Session 3: Institutional Transformation, Good Governance and Inclusiveness

Panellists:

Moderator: Orysia LUTSEVYCH, Research Fellow and Manager of the Ukraine Forum in the Russia and Eurasia Programme, Chatham House

- Maciej POPOWSKI, Acting Director-General, Directorate General Neighbourhood and Enlargement Negotiations (DG NEAR), European Commission
- Olena HALUSHKA, Member of the Board, Anti-corruption Action Centre, Ukraine
- Corinne MOMAL-VANIAN, Executive Director, Kofi Annan Foundation

Summary of the Discussions

Ukraine's reconstruction efforts will unfold over **two distinct periods: rapid recovery** to sustain current intensive war effort and strengthen its home front, followed by a **post-war period**, when a bulk of finance will be directed towards Ukraine to fashion a new quality of economy, society and political system.

Political modernisation is a keystone across both phases, but the scale and depth of political reform will vary depending on the timing and manner of phasing out of martial law in Ukraine. The stumbling blocks of good governance are lack of checks and balances on power and weak institutions. **Ukraine has a solid basis** from which to address this challenge: new anti-corruption agencies, an impressive track record of reforms since 2014, decentralised governance with strong municipalities, a highly engaged and dynamic civil society, a vibrant private sector, a solid digital governance, a pluralistic political culture and EU candidate status. Moreover, notwithstanding fighting a war, Ukraine has a functioning government.

Today, Ukraine's political and societal resilience is mainly sustained by **collaborative governance**, where citizens not only have a say, but are contributing a variety of tangible services: assistance to the internally displaced citizens (IDPs), mental health support and physical rehabilitation, assistance to refugees, cultural diplomacy, monitoring of public funds, and are advocating for deeper reforms. They are already building private-public partnerships that enable recovery. This practice should be scaled-up and institutionalised in the future international recovery facility.

In their discussion on the panel, the experts started off from the joint understanding that the current damages to Ukraine caused by Russia's appalling war of aggression, are not only of material nature (infrastructure), but that **reconstruction efforts will also have to be focused**

on the “**software**” of a **democratic, prosperous society**, that is human capital, public services and political accountability. The “soft recovery” will play a tremendous role for the societal and political trajectory of Ukraine.

While the end of hostilities is a key precondition for sustainable reconstruction and recovery, the discussion suggested that **democratic resilience** should underpin governance in Ukraine and be considered even now, as much as it is feasible under the martial law. In this regard, the panel agreed on **six pillars that are key to democratic resilience**: 1) legitimacy of governmental institutions and trust in political actors, 2) division of powers, including well-established decentralisation and empowered local authorities, 3) public confidence in the judiciary, 4) low corruption and low public perception of corruption, 5) inclusion of civil society in the policy-making process, also with regard to balancing top-down and grassroots approaches, 6) effective inter-agency cooperation to sustain resilient governance.

The discussion highlighted one specific challenge that Ukraine could face post-war, which is **holding free and fair elections**. Given the circumstances of war millions of people are displaced, inter-societal tension might arise, while at the same time regional authorities, municipalities, local communities and civil society might be partially disempowered by martial law.

While referring to the seven [Lugano Principles](#) as the basis for future recovery of Ukraine, the Panellists pointed out that the pathway to EU accession – as overwhelmingly supported by the Ukrainian population – and fulfilling the respective criteria, would significantly **facilitate modernisation**, as it represents a historical opportunity for governance reforms, as well as deeper inclusion of civil society and local communities in governance. The European Commission stands ready to fully engage with Ukraine throughout the pre-accession process and provide support for the necessary reforms.

At the same time, and while planning Ukraine’s reconstruction, measures mitigating corruption risks should be taken into account. To do so, it is paramount that **effective anti-corruption safeguards** are in place in advance of the reconstruction efforts. Safeguards for donor funds should be considered depending on the type of funding facility and inclusion of local communities in the spirit of Ukraine’s decentralisation model.

To **strengthen accountability**, with regard to recovery funds and based on reform success from the past, it is important to **protect independent anti-corruption institutions** like the National Anticorruption Bureau (NABU), Specialised Anticorruption Prosecutor’s Office (SAPO) and the High Anticorruption Court (HACC). They should have a clearly defined jurisdiction over corruption abuses committed in the course of the reconstruction. Besides, from the perspective of civil society, Ukraine must strengthen and advance the ongoing judicial reform, as well as the anti-monopoly policy and de-oligarchisation efforts.

Throughout the discussion, the **crucial, progressive and also guardian role of civil society** was highlighted repeatedly, while a mechanism for their systemic inclusion in the reform and reconstruction efforts is still to be designed.

Further discussion emphasised that post-conflict or post-war recovery needs to keep **gender issues** in sight, as well as the needs of **young people**, and to consider prevention of violence in the context of inner-societal tensions. Because young people are contributing significantly to the war effort, either through the armed forces or by leading many humanitarian assistance efforts, it would be particularly important to ensure that they feel equally included in the reconstruction planning and implementation.

Last but not least, experts involved in the discussion emphasised the need to **counter populist tendencies**, while also developing tools to **manage digital threats to democracy**, (especially disinformation and divisive content) and to come up with IT-based solutions for the monitoring of the reconstruction process, including how contractors actually deliver the necessary implementation.

Expert Recommendations

- Fulfilling the EU accession criteria would significantly facilitate modernisation. The European Commission stands ready to assist Ukraine throughout the process.
- Measures and safeguards for mitigating corruption risks for future spending should be designed in advance and taken into account when planning Ukraine's reconstruction.
- To reinforce accountability, in addition to strengthening central anti-corruption agencies, it is key to invest in collective action and transparency for bottom-up, community-led accountability at the grassroots.
- It is important to ensure competitive and transparent procurement through the use of systems to monitor funding flows for reconstruction projects in real time, across regions and donors.
- Decentralisation was one of the biggest successes of recent reforms in Ukraine, and became the backbone of the resistance to Russian aggression. Reconstruction efforts should emphasise the critical role of local communities, mayors, councils, local businesses, and civil society.
- To build legitimacy and effectiveness of national institutions, the reconstruction process must be led and coordinated by the Ukrainian authorities, with a strong international support and oversight.

- In recognition of their key role in addressing the needs of their people since Russia's war of aggression against Ukraine began, spending coordination should be appropriately done at regional, municipal and local authority level, given better awareness of populations' needs, and greater accountability to citizens.

Session 4: Macroeconomic and Financial Stability

Panellists:

Moderator: David WESSEL, Senior Fellow and Director of the Hutchins Center for Fiscal and Monetary Policy, Brookings Institution

- Sergii MARCHENKO, Minister for Finance, Ukraine
- Arup BANERJI, Regional Country Director for Eastern Europe, World Bank Group
- Yuriy GORODNICHENKO, Professor of Economics, University of California, Berkeley (virtual)
- Beatrice WEDER DI MAURO, Professor of Economics, Graduate Institute of International and Development Studies Geneva; President, Centre for Economic Policy Research (CEPR)
- Guntram WOLFF, Director, German Council on Foreign Relations (DGAP), Professor at the Solvay School of Economics and Management, Université Libre de Bruxelles

Summary of the Discussions

The Russian invasion destroyed much of Ukraine's economy. Real gross domestic product is expected to contract approximately 35% in 2022 (IMF). Trade has been disrupted. Infrastructure continues to be destroyed. Millions of people have been displaced. The challenges Ukraine is facing are also reflected in financial indicators, as underlined in a presentation by the finance minister on the country's current macro-financial situation, fiscal structure and developments since the beginning of the war. Two **macroeconomic imbalances** are particularly critical: **fiscal and external**. With underdeveloped financial markets and a war-torn economy, the standard tools (debt, increasing taxes, lowering non-military government spending) to address fiscal deficits can cover only some of the needs of the Ukrainian government.

As a result, the government relied heavily on printing money to pay for huge military expenditures, which has **ignited inflation**. This is imposing an "inflation tax" on Ukrainians. Pensions, for instance, have been frozen at nominal levels, so pensioners are taking large real cuts. However, Ukraine has also responded to **address its financing gap by imposing tariffs and reducing expenditures in the next year's budget**. The **external imbalance** is even more difficult to address. Exports are largely dependent on Ukraine's sea ports, which are partially blocked by Russia, while the national central bank introduced capital controls and fixed the exchange rate to rein in inflation. These policies are not sustainable. There is a **substantial risk of a macroeconomic crisis**, one that would be devastating to the war effort.

The solution is **aid from abroad**. Ukraine's allies have the resources to finance Ukraine, and they should step up. But, as the discussion highlighted, there is more donor competition than

donor coordination. “We need one Marshall Plan. We don’t need 50 Marshall Plans,” one panellist said. Ukraine needs about USD 38 billion in 2023 to cover budget deficits and another USD 17 billion to quickly repair damaged infrastructure, about one-tenth of one percent of the GDP of Ukraine’s allies. For Europe to contribute, solutions at the European level (rather than the national level) and having the European Commission administer the funds should be considered, according to one expert. It was also stressed that instead of donor competition there should be donor coordination.

Maintaining political support from Europeans, Americans, and other donor countries will be challenging – especially in light of rising energy prices in Europe and the political climate in the US – and requires transparency and accountability, alongside the persistent strategic communication at which the Ukrainian government excels.

One bright spot: The **strength of the Ukrainian banking system** and the extent to which the **financial system is digitalised**.

Expert Recommendations

- Ukraine needs immediate, credible and predictable commitments from its partners of at least USD 38 billion to cover its budgetary deficit and other essential expenditures in a non-inflationary manner in 2023.
- Ukraine’s partners have the resources to finance the country’s needs and the investment in Ukraine will pay huge returns, both economic and in terms of protecting freedom and democracy. For Europe to contribute, solutions at the European level (rather than the national level) and having the European Commission administer the funds should be considered.
- Instead of donor competition, there should be donor coordination. Ukraine has benefited from substantial goodwill and commitments from donors. The urgent need now is to deliver on commitments and, importantly, to coordinate among donors – and to make clear who will take the lead. The European Commission is one possible option for leading the coordination platform, but the design of any such platform needs to recognise that non-EU donors (including the U.S, Japan, Canada, Switzerland, all of whom have already contributed significantly to Ukraine) need to have a role in its governance.
- Ukraine needs money from other countries now – both for budget support and urgent repairs to damaged energy and other infrastructure – so that it can build its economy and its tax base. At the pattern of monetisation over the past seven months, predictability of monthly external flows is almost as important as sufficiency of flows in order to prevent monetisation during periods of shortfall in monthly fiscal liquidity.

- Ukraine needs grants, not just loans.
- If external aid is not enough and hence the best solution is not available, the Ukrainian government should raise more money domestically by offering competitive interest rates on “war bonds,” making taxes more progressive, further optimising government spending. In any case, it should introduce some flexibility in the exchange rate.

Session 5: Industrial Policy and Sustainable Development

Panellists:

Moderator: Ian GOLDIN, Professor of Globalisation and Development, Oxford University

- Achim STEINER, Administrator, United Nations Development Programme (UNDP)
- Oleksiy KOLEZHUK, Head of the Scientific Committee, National Council of Ukraine on Science and Technology Development; Professor of Physics, T. Shevchenko National University of Kyiv
- Vasco ALVES CORDEIRO, President, European Committee of the Regions
- Edward CHOW, Senior Associate, Center for Strategic and International Studies

Summary of the Discussions

As the day's discussions brought out, **history matters and there are lessons to be learned.** Yet there are reasons to be both more optimistic and more ambitious than what Ukraine's historical comparative advantages, based on old trading partners, would indicate. To truly reorient Ukraine's economy from East to West through future-proof and a green industrial strategy, global integration and the accession to the EU, and crowding-in sustainable investment flows, it is necessary to thoroughly shed the baggage of historical Soviet experiments in industrial policy and planning.

With the **forging of new global partnerships**, discussions highlighted the role of the international community in helping Ukraine to **build forward from agriculture and heavy industry into a knowledge economy** that harnesses the power of Ukraine's considerable human capital base towards **technology-driven growth and sustainability**, including through modernising and greening agriculture. Immediate needs and short-term reconstruction efforts should be appropriately sequenced, governed with **transparency and accountability**, and should not detract from a **sustainable long-term development strategy**.

Cross-panel discussions highlighted the **role of Ukraine's urban centres** – though damaged as they presently are – as strongholds of global talent, which must be invested to create future-oriented liveable cities, building on the deep historical and cultural legacy. There is much to learn from global best practices in urban reconstruction while upholding the rich culture, character and agility of cities in bringing about change and regeneration. The **European Alliance of Cities and Regions for the Reconstruction of Ukraine** was highlighted as one such source of coordinating joint efforts through the accession process, building knowledge networks and twinning effects, and facilitating capacity-building, good governance, and making Ukrainian cities and regions centres for excellence.

Similarly, investment flows to Ukraine's core infrastructure will be targeted not towards building back, but towards **building better and greener**. The **EBRD's Green Cities Programme** was identified as a pathway towards greener and more transparent practices. Energy efficiency and security is a source of significant vulnerability, yet has the potential to be a strength given resource endowment, human capital and locational advantage. Regulatory reform, governance and accountability of standards and business practices through EU accession will be central to building resilience and legitimacy as a private-sector investment destination.

Coordination, knowledge-sharing and building best practices were identified as being not only Ukraine's responsibility, but to be fostered by the international community through collaboration. Ukraine's sources of innovation-led growth – science, research and knowledge – present opportunity for transformation away from aged, carbon-intensive industry and towards dynamic, inclusive markets where small businesses and start-ups can thrive.

Expert Recommendations

- Well-coordinated international economic assistance, that focuses on building capability across whole regions and communities, will be critical to success.
- Dedicated, evidence-led urban planning will be essential given the role of cities in fostering sustainable, resilient and agile economic recovery. Forward-looking exercises, such as Kharkiv's Masterplan, provide examples which can be built upon.
- Forging links between Ukraine's cities and wider global networks should be encouraged, to enable sharing of best practice, lessons learnt, and wider, cross-community international support.
- Ukraine's further industrial and agricultural development and modernisation must be built sustainably, leap-frogging towards a climate-neutral economy in line with European standards. Critical to this will be the greening of the agriculture and industry, including through the reform and modernisation via integration with European energy markets, and scale of investment needs which will require State, donor and the crowding-in of private investments.
- Research and innovation should be embraced as a core pillar of a sustainable economic recovery and future growth of a knowledge-based economy, that harnesses the power of Ukraine's human capital, and requires a major policy shift and fundamental transformations in this sector. It is thus advisable that the platform/agency coordinating the donor help has a dedicated supervision team for this sector.

- In the short term, donor help in the research and innovation sphere should be focused on retention and development of human capital (e.g., via supporting researchers, embedding them into ongoing activities via non-residential fellowships), deepening global integration of Ukrainian science via support of international research networks and doctoral schools, and strengthening ties between research and business. Longer-term support should flow into new structures and instruments that will define the vector of transformation, such as joint centres of excellence and innovation hubs.



Conference Participants

The *International Expert Conference on the Recovery, Reconstruction and Modernisation of Ukraine* was co-hosted by Chancellor Olaf Scholz for the German G7 Presidency and President Ursula von der Leyen for the European Commission, in close cooperation with the Government of Ukraine.

A total of 52 international delegations attended the Conference in a joint effort to support the recovery, reconstruction and modernisation of Ukraine. The Ukrainian delegation of 37 was led by Prime Minister Shmyhal as well as the Ministers for Finance and for Communities and Territories Development. President Zelenskyy joined virtually. Contributions on the panels and via video messages included those of 7 Heads of State or Government as well as from 2 Ministers and a State Secretary.

The more than 300 participants from over 40 countries that attended the Conference on-site represented governments, parliaments, International Organisations and International Financial Institutions, as well as academia, think tanks, civil society and the private sector. A livestream ensured that participation was possible also beyond physical attendance in Berlin.

The videos of the Conference are accessible via the [Conference website](#).

Conference Agenda

Master of Ceremonies: Ali ASLAN, International TV Presenter and Journalist

09:00 Opening Remarks by Co-Hosts Olaf SCHOLZ, Chancellor of the Federal Republic of Germany, Presidency of the G7, and Ursula VON DER LEYEN, President of the European Commission

09:15 Keynote Address by Volodymyr ZELENSKYY, President of Ukraine

09:30 Opening Plenary: International Perspectives on Ukraine's Recovery, Reconstruction and Modernisation

Panellists:

Moderator: Heather A. CONLEY, President, the German Marshall Fund of the United States

- Denys SHMYHAL, Prime Minister of Ukraine
- Ignazio CASSIS, President of the Swiss Confederation
- Mateusz Morawiecki, Prime Minister, Poland
- Mathias CORMANN, Secretary-General of the Organisation of Economic Co-operation and Development (OECD)
- James CLEVERLY, Secretary of State for Foreign, Commonwealth and Development Affairs, United Kingdom (*video message*)

10:15 Family Photo [*Heads of Delegations and experts*]

10:15 Coffee Break [*other participants*]

10:35 Press Conference by Co-Hosts Olaf SCHOLZ and Ursula VON DER LEYEN as well as Denys SHMYHAL, Prime Minister of Ukraine

11:30 Session 1: Lessons from Recovery Efforts of the Past

12:30 Social Lunch

13:30 Session 2: Recovery and its Financing

14:30 Session 3: Institutional Transformation, Good Governance and Inclusiveness

15:15 Coffee Break

15:30 Session 4: Macroeconomic and Financial Stability

16:30 Session 5: Industrial Policy and Sustainable Development

17:30 Closing Remarks

- Denys SHMYHAL, Prime Minister, Ukraine
- Fumio KISHIDA, Prime Minister, Japan, incoming Presidency of the G7 (*video message*)
- Joko WIDODO, President, Indonesia, Presidency of the G20 (*video message*)
- Ursula VON DER LEYEN, President, European Commission
- Olaf SCHOLZ, Chancellor, Federal Republic of Germany, Presidency of the G7

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Moderators and Panellists of Sessions 1-5 (p. 5-22)

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