

## Who will pay to put Ukraine back together again?

Postwar reconstruction will hinge on reducing corruption and forging a genuinely close relationship with the EU

Ben Hall in Borodyanka and Sam Fleming in Brussels YESTERDAY



### Receive free War in Ukraine updates

We'll send you a *myFT Daily Digest* email rounding up the latest War in Ukraine news every morning.

Sign up

The remains of Borodyanka's music school have been cleared into several piles of twisted metal. Completely destroyed [in fighting](#) between Russian and Ukrainian forces, the rest of what is left of the building is now neatly raked dust.

Municipal workers have done a remarkable job of cleaning up the debris since [Russian forces](#) withdrew from the area at the end of March. But there is no hiding the devastation in Borodyanka, the most badly damaged of the towns north-west of Kyiv, which bore the brunt of Moscow's failed attempt to take the capital after the invasion began on February 24.

The music school is on Central Street, where advancing Russian tanks met ferocious resistance from Ukrainian forces. On the same road, the post office, municipal administration building, district administration office, police headquarters, a cultural centre and several apartment blocks have all been destroyed.

In a classroom across town that serves as his makeshift office, Georgy Yerko, the deputy district mayor, consults his list: 397 buildings including nine high-rise residential blocks obliterated, 888 damaged, 17,000 square metres of windows shattered. Asked whether he can put a price on the losses, he shakes his head, pointing out that even in houses untouched by bombs or bullets, the pipes may have burst due to lack of heat. But he knows who should carry the cost: Russia.

"The side that destroys should be the side that pays," Yerko says.



Borodyanka, the most badly damaged of the towns north-west of Kyiv, bore the brunt of Moscow's failed attempt to take the capital after the invasion began on February 24 © Oleksii Karpovych/FT

Although shocking, the losses in Borodyanka, which before the war had a population of 13,000, are a tiny fraction of those inflicted on the country by Russia's invasion. Mariupol, the south-eastern port city that has been mostly levelled in a Russian siege, had a population 40 times larger.

Even as the destruction continues, the western governments that have backed Ukraine in the war are beginning to weigh up the costs and planning that will be needed for a postwar reconstruction effort that will rival anything seen since the second world war.

The project, officials warn, is going to be immensely complex and costly, running into hundreds of billions of euros, and it will have to go far beyond simply rebuilding bridges and municipal buildings. It will entail the wholesale reconstruction of Ukraine's private sector and reforms to an economy that, after suffering from eight years of simmering conflict, is in line for a 45 per cent crash in output this year.

The fate of postwar reconstruction will hinge on some of the existential questions about Ukraine that the war has only made more urgent: whether its state can free itself from the corruption and oligarch-strewn system that has plagued it, and whether it can forge a genuinely close relationship with the EU that might even include membership. It will also depend on whether Russia [will ever pay](#) for any of the damage.

EU officials are divided over how intensively they can or even should be planning for this fraught reconstruction exercise given there is no end in sight to Russia's assault on the country. But they are clear that if the eventual process is mishandled, it would be disastrous both for Ukraine and for wider European security.



Deputy mayor Georgy Yerko, centre, with co-workers in a classroom across town that serves as his makeshift office © Oleksii Karpovych/FT

“There is enormous willingness among the international community and private actors to invest in the rebuilding of Ukraine, but how long this enthusiasm lasts will depend on the money being spent well,” warns Beata Javorcik, chief economist of the European Bank for Reconstruction and Development, which will be one of the institutions closely involved in the effort.

“The most challenging aspect is rebuilding the institutional framework: Ukraine was no model in terms of business environment or high-quality institutions prior to the war.”

In a speech earlier this month, European Commission president Ursula von der Leyen said the goals of the EU’s recovery project for Ukraine would include the fight against corruption and aligning Ukraine with European legal standards.

“This will bring the stability and certainty needed to make Ukraine an attractive destination for foreign direct investment,” she told the European parliament. “And eventually, it will pave the way for Ukraine’s future inside the European Union.”

## The rebuilding effort

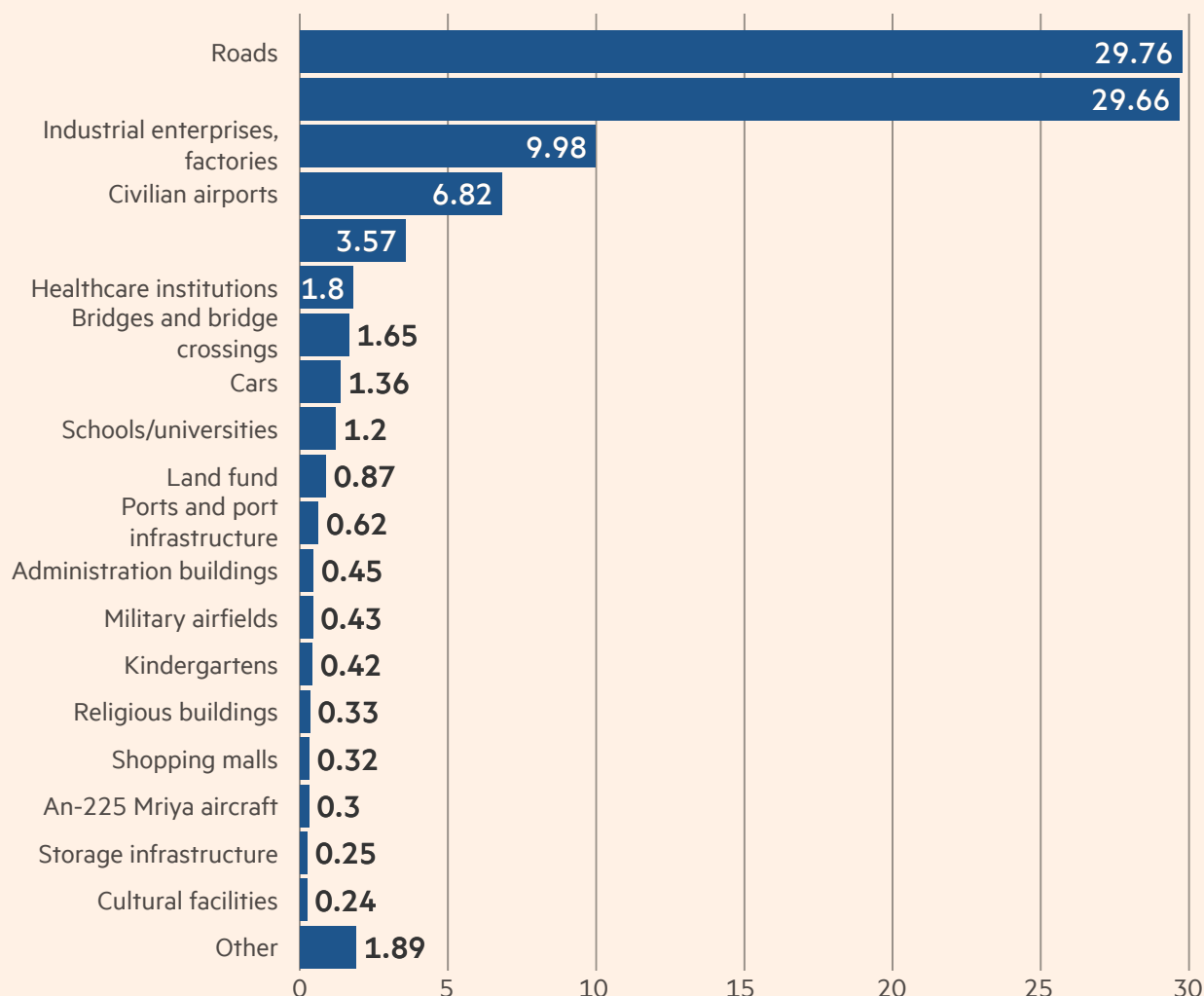
On one level, talk of rebuilding Ukraine might seem tragically premature given the ongoing fighting across large parts of the country. And indeed, the top priority for Ukraine’s partners is keeping it supplied with weapons, humanitarian aid and the liquidity needed to plug a financing gap estimated at \$5bn a month.

Any lasting effort to rebuild the country's economy as well as infrastructure will only be possible in an environment of "de facto or de jure stability", says Scott Morris, a senior fellow at the Center for Global Development in Washington.

But this has not stopped the Ukrainian government from starting to rebuild in parts of the country where fighting has ended. There is a continual race to restore vital services, rebuild housing and salvage productive capacity in the Ukrainian economy.

## Ukraine's monumental rebuilding plan

Total damages (\$bn)



FINANCIAL TIMES

Source: KSE

Ukrainian economists have also started to calculate the ever-growing bill caused by Russia's invasion, as they make the case for immediate and longer-term assistance.

Nataliia Shapoval and fellow economists at the Kyiv School of Economics Institute began to catalogue the damage to Ukraine on the second day of the invasion. They started with a website for self-reporting and soon built a database of damage to Ukraine's physical infrastructure, working with the government to include its data and other official sources.



The KSE's latest estimate of the direct damage to infrastructure reached \$92bn. Their “back of the envelope” calculation of total losses, including growth, investment and economic potential, comes to between \$500bn and \$600bn.

It is important to start reconstruction now, says Shapoval, in order to safeguard functioning parts of the Ukrainian economy, otherwise the longer-term financial burden on donor countries would be even bigger.

The case for Ukraine and its allies to start planning the rebuilding effort is echoed by the country's president himself.

Volodymyr Zelensky outlined his approach to reconstruction in a speech to a donors' conference in Warsaw last week. Funding needed to be massive in scale, he said, a “modern analogue to the Marshall plan” including “technology, specialists and growth opportunities”. He also called on individual countries to act as patrons for individual Ukrainian cities or regions, helping them to rebuild.

Zelensky added that reconstruction should go hand in hand with a fast track to EU membership: “Candidate status granted right now — in conditions of war. As part of a special abridged procedure for EU membership.”



Communal workers carry out electrical repairs in Borodyanka. A race is under way to restore vital services, rebuild housing and salvage productive capacity in the Ukrainian economy © Getty Images

The latter point touches on one of the most politically sensitive aspects of the process.

The topic of Ukrainian membership is hugely controversial within the EU, where many member states view the notion of Ukraine entering the union soon as being not only implausible, given that the country is ravaged by a war, but also divisive given the message it sends to longstanding EU candidates sitting in the waiting room.

But Brussels is also well aware that, accession or not, it will be Europe that ends up bearing the lion's share of the costs of the reconstruction effort given that Ukraine is on its doorstep. Officials in Brussels and elsewhere see advantages in twinning the reconstruction effort with the intensive reforms and monitoring that tend to be required of countries that gain the status of EU candidate.

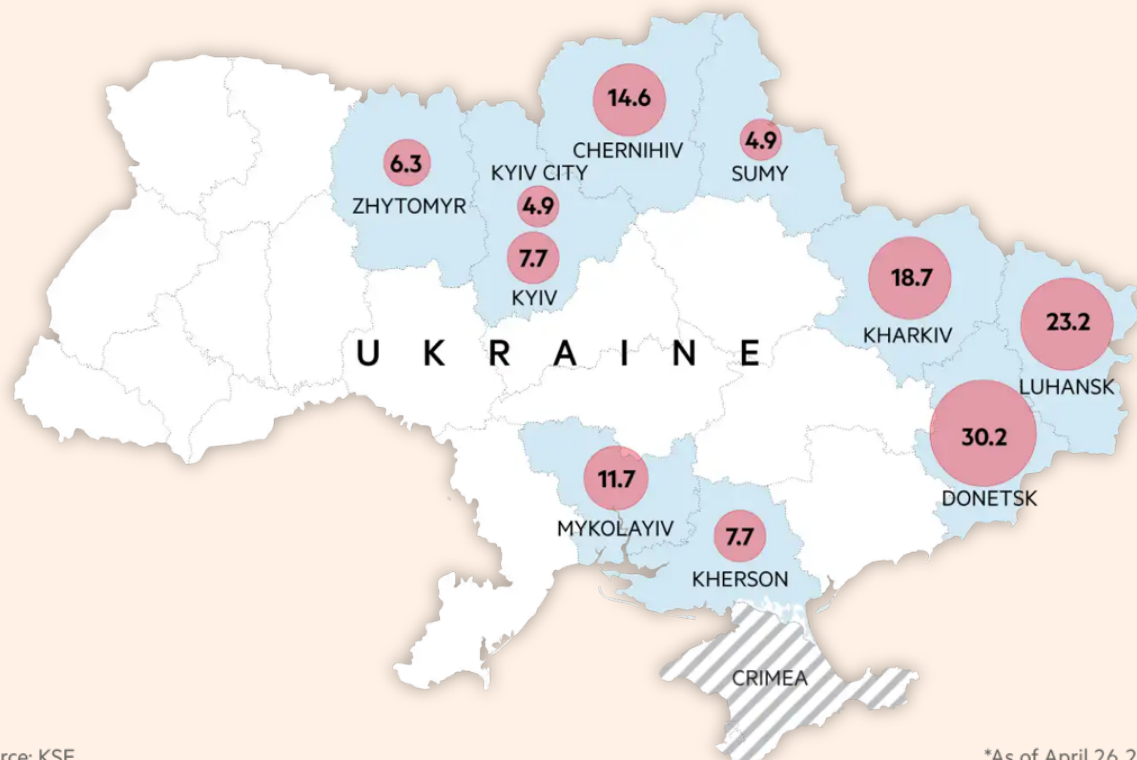
The promise of eventual EU membership would attract foreign investors, they hope, while also keeping the Ukrainian public engaged in the painful process of reform — enhancing the chances of a successful rebuilding of postwar Ukraine.

Arup Banerji, the World Bank's country director for Ukraine, says the fact that Ukraine has its sights on "eventual candidacy and even more eventual accession" puts it in a stronger position than other postwar societies, given the EU's ability to serve as an "anchor and a model" for the country.

---

## Eastern Ukraine suffers greatest damage

% of physical infrastructure damaged or destroyed since Russia invaded Ukraine, by oblast\*



Source: KSE  
© FT

\*As of April 26 2022

One of the central planks of those reforms will be to tackle endemic corruption — ensuring donors' and lenders' cash is not stolen and creating a more stable foundation for the country in the longer term.

Sergii Marchenko, finance minister, says the immediate priority is to repair bridges and windows and to restore electricity and water supplies in affected cities. But he said it was also time to reflect on economic choices for the country and the kind of institutional reforms needed to underpin them, especially anti-corruption safeguards and bolstering the rule of law.

“Now it is not just a question of money. It is a question of principles. What should Ukraine do to attract foreign direct investment?” he says.

The problem, however, warns Yuriy Gorodnichenko, a professor of economics at Berkeley, is that Ukraine has in the past failed to deliver its promises in return for international financial support.

A report by the European Court of Auditors as recently as September found that despite repeated efforts by the EU to improve the rule of law there, “grand corruption and state capture are endemic in Ukraine: as well as hindering competition and growth, they also harm the democratic process”.

“I hope this time will be different,” adds Gorodnichenko, who is Ukrainian. “But the reality is our institutions are pretty weak. That is why we need an external anchor” such as the possibility of accession to the EU.

## The new Marshall Plan

The favoured analogy in Brussels for future efforts to reconstruct Ukraine is the Marshall Plan following the second world war — perhaps inevitably given the positive connotations of that reconstruction effort. But officials are well aware that there are other, less encouraging precedents that underline the risks of the project going awry.

Some \$220bn was spent on the [reconstruction of Iraq](#) between 2003 and 2014 following the US-led invasion and overthrow of Saddam Hussein’s regime. The biggest contributions came from Iraq’s government followed by the US, which spent \$60bn, according to the World Bank.

Yet a 2019 report from the Bank found that, based on interviews with government agencies, “the impact of reconstruction remains disappointingly obscure considering the resources committed” and was undermined by widespread corruption.



Ursula von der Leyen and Ukraine president Volodymyr Zelensky shake hands, as EU High Representative for Foreign Affairs and Security Policy Josep Borrell looks on, in Kyiv last month © Ukrainian Presidency/ABACA/Reuters

Banerji, of the World Bank, says there are several reasons to be more optimistic about Ukraine's postwar prospects than those of Iraq. The key one is that the country still has a "well-functioning government" despite the ongoing wartime conditions, he says, as well as a functioning financial system. It also has a government that, in his words, is determined to take the lead and "own" the eventual reconstruction process.

Ukrainian politicians repeatedly stress the importance of the rebuilding effort not being dictated from abroad. Dmytro Natalukha, a Ukrainian MP who heads the committee on economic development, says the model should not be sponsorship but "a proper partnership".

"We don't want to be a black hole for finance and capital," he says. "We are not a nation that wants to become a worldwide beggar."

## Can Russia repay the damage?

Hanging over the debate on the best strategy for rebuilding Ukraine is the more basic question of where exactly the money will come from.

Officials say it stands to reason that multilateral lenders such as the World Bank, IMF and EBRD will be deeply involved in any efforts to rebuild Ukraine. But their resources will only go so far given the competing demands they face around the world.

The US has stood out for the scale of the support being promised, with Joe Biden last month [asking Congress](#) to authorise \$8.5bn of economic aid for Ukraine as part of a \$33bn package for the country. This is on top of \$14bn approved the month before.



But officials in Brussels are already discussing ways of raising funds that would exceed those sums. The ideas being debated include a fresh round of common EU debt issuance to fuel the reconstruction, potentially modelled on fundraising efforts aimed at rebuilding the EU following Covid. Von der Leyen told the European Parliament that an “ambitious recovery package” would be needed to bring both massive investment and reforms.



‘Borodyanka was good. But it will be even better,’ says resident Nadia, 25 © Oleksii Karpovych/FT

This would contain a system of milestones and targets to make sure the money delivers, she said, echoing the approach used in the €800bn NextGenerationEU borrowing programme, which was created to help recover from the pandemic.

Allied to this is the question of whether Ukraine will need to restructure its own external debts as part of an eventual economic overhaul. Marchenko has insisted keeping up debt repayments is a priority because the government wanted to retain its access to local and international capital markets. But many analysts see Ukrainian debt restructuring as more a question of when, rather than if.

The EU and its allies are also actively looking at how, if at all, Russia can be made to contribute to remedying some of the damage its army has caused. Conscious of how distant any notion of war reparations seems, the EU and the US have looked at ways of seizing Russian assets to help pay for the effort.

Washington and Brussels are, for instance, looking at ways of confiscating and selling assets of Russian oligarchs who are subject to sanctions — although the legal hurdles are formidable and any proceeds would ultimately be dwarfed by the reconstruction effort.

Another option is to look to foreign exchange reserves of the Russian central bank, which were frozen soon after the invasion. These provide a far more lucrative target, given they run into hundreds of billions of euros.



Damaged houses in Borodyanka. Ukrainian economists have started to calculate the ever-growing bill caused by Russia's invasion © Oleksii Karpovych/FT

Among those who have advocated this course of action is Josep Borrell, the EU's top diplomat. "I would be very much in favour because it is full of logic," Borrell told the FT. "This is one of the most important political questions on the table: who is going to pay for the reconstruction of Ukraine?"

While there are precedents for seizures of sovereign assets, including US action against [Afghanistan's central bank](#) early this year, taking control of Russian reserves would mark a new and incendiary departure given the sums at stake.

To some EU officials, even starting the debate on reconstruction funding when the war is raging risks distracting from far more immediate wartime priorities. But others argue the debate is an essential one to begin now — not least because discussion of what Ukraine could ultimately be rebuilt into offers hope to a country blighted by death, destruction and fear.

"Having light at the end of the tunnel is obviously a huge morale boost for Ukrainians, especially for people in the occupied territories," Gorodnichenko says. "Having a sense the future will be better will make it easier to survive these dark days."

Playing with her children on the swings in Borodyanka, Nadia points to a charred apartment block that was half demolished by a Russian bomb. "We need reconstruction to get rid of this," she says. "Borodyanka was good. But it will be even better."

