Institute of European Right

COMMENTARY

Rebuilding and Integrating: Charting Ukraine's Post-War Path

AUTHOR
Edvardas Lukošius

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The Institute of European Right, in cooperation with the Wilfried Martens Centre for European Studies, convened and hosted a roundtable discussion titled “Rebuilding and Integrating: Charting Ukraine’s Post-War Path.” The event brought together subject experts, diplomats, academics, and policymakers. This policy paper is based on the presentations and discussions held under Chatham House rules, capturing key insights and recommendations for Ukraine’s reconstruction and European integration.

Executive Summary

- Ukraine’s post-war reconstruction and European integration represent a historic opportunity to build a resilient, modern Ukraine while strengthening European stability and unity.
- Ukraine’s successful recovery and integration into the EU will redefine its future and reinforce Europe’s leadership and resilience on the global stage.
- Recommendations:
  - Prioritise financial stability and institutional reform by ensuring streamlined international support and robust governance mechanisms to enhance transparency and accountability.
  - Focus on constructing sustainable, green infrastructure that reflects European standards, stimulates economic recovery, and attracts private and public investment.
  - Integrate workforce development and demographic considerations into recovery efforts to address labour shortages and create conditions for displaced Ukrainians to return.

1. Foundations of Reconstruction

Macroeconomic Stability

The foundational challenge for Ukraine’s post-war recovery lies in maintaining macroeconomic stability amidst unprecedented fiscal strains. The projected budget deficit of $40 billion in 2025 highlights the criticality of international support to sustain essential public services and prevent a collapse of public finances. Ukraine’s allies must remain primarily focused on direct budgetary support rather than solely emphasising recovery projects, as stable state finances underpin all reconstruction efforts.

The G7+ initiative exemplifies a coordinated response to bridge these fiscal gaps, yet challenges persist in streamlining financial delivery. Bureaucratic inefficiencies delay fund disbursement by up to 12 months, undermining immediate relief. Reducing these delays is paramount for sustaining Ukraine’s financial resilience.

Governance and Capacity Building

Efficient governance and institutional capacity are prerequisites for ensuring the effective management of reconstruction funds. The current state of Ukrainian public administration, particularly in agencies managing infrastructure, highlights systemic inefficiencies. Legacy practices favour

outdated frameworks and allow opportunities for corruption. For example, the primary Ukrainian agency overseeing infrastructure reconstruction has faced criticism for its inability to adapt to modern, transparent governance standards.

A fundamental overhaul of Ukraine's governance model is required, emphasising institutional capacity and public accountability. Best international practices suggest establishing independent oversight mechanisms composed of Ukrainian and international experts to supervise reconstruction initiatives. Such frameworks could include supervisory boards led by EU nationals to ensure unbiased selection processes and adherence to global governance standards.

Investment in human capital is a critical component of capacity building. Historical parallels with Lithuania underscore the value of international technical assistance in cultivating a skilled administrative workforce. Programs focused on institutional training, funded by the EU's Ukraine Facility, offer a model for enhancing Ukraine's capacity to manage complex projects. Targeted initiatives, such as scholarships tied to public service commitments, could further bolster Ukraine's labour pool while ensuring knowledge transfer within its governance systems.

Interdependencies Between Governance and Economic Stability

Macroeconomic stability and governance reform are deeply interconnected. The absence of robust institutions risks fund mismanagement, exacerbating fiscal challenges and undermining donor confidence. Conversely, sustainable fiscal health requires governance systems capable of deploying funds transparently and effectively. Failure to address these dual challenges could erode Ukraine's global reputation, which is a critical asset as it seeks to mobilise public and private investment for reconstruction.

2. Infrastructure as the Backbone of Recovery

Modernising Infrastructure

Ukraine's post-war recovery offers a transformative opportunity to overhaul its infrastructure. Outdated designs and systemic road, rail, and energy network inefficiencies hinder trade and economic growth. Infrastructure that remained underdeveloped before the war has now faced destruction, leaving critical trade corridors disrepair. For instance, the absence of modernised transport routes between Kyiv and Lviv exemplifies pre-war neglect.

Reconstruction efforts must go beyond merely replacing damaged assets; instead, they must focus on creating modern and sustainable systems. This involves introducing European-standard construction codes and green methodologies. The need for more skilled architects and designers familiar with green construction highlights the need for targeted investment in human capital. Without such advancements, Ukraine risks falling back on monopolistic structures dominated by entrenched oligarchic interests, further stifling transparency and innovation in the sector.

Energy and Sustainability

The war has devastated Ukraine's energy infrastructure, leaving two-thirds of its capacity inoperable. Rebuilding efforts must prioritise decentralised systems, such as microgrids, to enhance resilience against future disruptions. Renewable energy, particularly wind and solar, could form the foundation of Ukraine's new energy strategy. However, regulatory bottlenecks and limited access to the grid have hindered progress, with only a negligible fraction of new renewable capacity connected in recent years.

Streamlined regulations are essential to attract private investment and ensure faster deployment of energy projects. A stable energy supply is a prerequisite for industrial recovery, particularly for sectors like manufacturing, which depend on reliable electricity. Transparent, publicised reporting of energy investments and outcomes can further build trust among domestic stakeholders and international donors, ensuring accountability in the energy sector's transformation.

Strategic Bottlenecks and Opportunities

Reconstruction is not merely a technical challenge but a strategic one. Ukraine's limited capacity to absorb reconstruction funds—historically capped at $20 billion annually—demonstrates the urgent need for institutional reform. Agencies such as the Ukrainian road construction body have faced criticism for inefficiency. Establishing new, independent agencies with international supervisory boards, including EU experts, could address these systemic issues and ensure fair procurement processes.

3. Role of the European Union

Financial and Technical Assistance

The European Union has positioned itself as the primary financial supporter of Ukraine, committing over €40 billion in aid as of late 2024. This assistance is structured through the Ukraine Facility, a pivotal financial framework designed to address Ukraine's immediate fiscal gaps, bolster its resilience, and align its institutions with EU standards. The facility operates across three interconnected pillars:

- Direct Financial Support
- Investment Framework
- Technical Assistance

While these pillars collectively address Ukraine's fiscal, investment, and institutional needs, the delayed implementation of financial commitments undermines their efficacy. A lag of up to 12 months between political pledges and disbursement disrupts recovery efforts, prompting calls for streamlined bureaucratic processes to close this gap and enhance donor credibility.

Integration into EU Structures

The EU's financial support is linked to Ukraine's integration into its institutional framework. However, this process is fraught with challenges, highlighting the complex interplay between economic assistance and structural reform:

1. **Conditionality of Support**:
   EU financial assistance is tied to stringent conditions, including anti-corruption measures, unbundling monopolistic sectors, and adopting EU standards. These reforms are essential for Ukraine's integration into EU structures but require an unprecedented historical institutional and political transformation.
2. **Systemic Misalignment**:
   Ukraine's entrenched monopolistic systems, particularly in sectors such as energy and railways, are fundamentally incompatible with EU competition laws. These structural inefficiencies demand extensive technical support and political will to overhaul. For example, the unbundling of energy monopolies—a prerequisite for EU membership—has proven contentious and time-consuming, as demonstrated by similar reforms in more minor EU member states like Lithuania.
3. **Reputation and Public Perception**:
   The perception of Ukraine's ability to transparently manage EU funds is pivotal. Missteps, particularly corruption or inefficiency, risk undermining the political and public support necessary for enlargement. Demonstrating tangible successes in the short term is essential for sustaining momentum in accession negotiations.
4. **Challenging Timelines**:
   The EU's commitment to initiating accession talks by 2028 necessitates rapid progress on technical and structural reforms. However, this accelerated timeline concerns Ukrainian institutions' capacity to meet these ambitious benchmarks.

Strategic Revisions for Enlargement

The enlargement process itself requires adaptation to accommodate Ukraine's unique circumstances. Proposals for phased or gradual integration, allowing Ukraine access to select EU benefits before full membership, offer a pragmatic pathway. This approach addresses the immediate need for alignment without compromising the EU's enlargement principles. However, such a strategy must contend with internal EU challenges, including potential disruptions to the Common Agricultural and Cohesion Policies and the complexities of decision-making in an expanded Union.

The EU's role in Ukraine's recovery extends beyond financial assistance, shaping the nation's path toward European integration. The EU can facilitate Ukraine's transformation by addressing systemic inefficiencies, adhering to conditionality while demonstrating flexibility, and exploring innovative enlargement strategies. Success in these efforts will define Ukraine's future and reinforce the EU's credibility as a geopolitical and economic actor.

4. Labor Force and Demographics

Labour Shortages and Skills Development

The war has exacerbated Ukraine's already pressing labour challenges, with millions displaced and a significant portion of the workforce either conscripted or migrating to neighbouring countries. Addressing this labour deficit is critical to ensuring that reconstruction efforts are initiated and sustainably managed. Proposals to address these shortages focus on combining immediate infrastructure development with long-term skill-building initiatives.

Investments in labour skills are essential for Ukraine to develop the human capital required for its reconstruction and integration into European markets. A key proposal involves creating scholarship programs tied to service commitments. For example, EU member states such as Lithuania and Poland could provide academic opportunities for Ukrainian architects, engineers, and planners with the condition that graduates return to Ukraine to work on reconstruction projects for a fixed period.

Moreover, aligning infrastructure projects with vocational training programs can provide displaced individuals with marketable skills while addressing immediate labour needs. This strategy facilitates economic participation among displaced populations and ensures infrastructure development incorporates local labour, fostering community ownership of reconstruction efforts. Such programs could serve as a template for EU-supported initiatives to mitigate brain drain while advancing Ukraine's post-war recovery.

Demographic Opportunities

The demographic implications of Ukraine's labour crisis extend beyond its borders. The EU, grappling with an ageing population and labour shortages, benefits significantly from Ukraine's workforce. Ukraine's integration into the EU could provide a much-needed demographic boost, particularly in sectors such as healthcare, construction, and manufacturing, where labour deficits are pronounced. However, with targeted policies to incentivise Ukrainians to remain or return, the country can avoid a prolonged brain drain undermining its recovery efforts.

To counteract these risks, reconstruction efforts must prioritise creating conditions conducive to the return of displaced Ukrainians. Projects that combine housing and employment opportunities with community-building initiatives can provide the stability needed for families to return. For example, building modern schools and healthcare facilities in urban centres such as Kyiv or Lviv, rather than war-torn regions near the frontlines, could attract displaced populations by offering physical safety and economic opportunities.

The EU must also consider how its policies can support Ukraine's demographic resilience. Adjusting residency and work permit regulations to facilitate the temporary return of Ukrainians to their homeland for reconstruction efforts could strike a balance between EU labour needs and Ukraine's recovery. Additionally, integrating demographic and labour considerations into the EU's enlargement strategy would formalise these priorities, ensuring that Ukraine's recovery aligns with its domestic needs and EU objectives.

5. Investment and Private Sector Engagement

Ukraine's reconstruction hinges on international grants and loans and on mobilising private investment. As the scale of recovery surpasses governmental capacities, the role of the private sector becomes pivotal. Yet, the pathways to attracting such investments are riddled with systemic challenges, ranging from bureaucratic inefficiencies to geopolitical risks. Addressing these barriers while fostering a competitive and transparent investment environment is imperative for Ukraine's economic revival.

Attracting Private Investments

The war has exacerbated existing barriers to private investment, particularly in insurance and regulatory frameworks. Securing investment in a conflict zone necessitates robust risk-mitigation mechanisms. Acquiring investment insurance through agencies such as the World Bank's Multilateral Investment Guarantee Agency (MIGA) or European entities involves extensive delays—often up to a year—and offers limited coverage for new enterprises. Streamlining these insurance processes while expanding their scope could provide immediate relief for investors seeking entry into Ukraine's market.

Infrastructure development remains a critical magnet for investment but needs to be improved by gaps in energy access and grid stability. Two-thirds of Ukraine's energy infrastructure has been decimated, creating a bottleneck for industrial activity. Renewable energy sources, including wind and solar, have immense potential, yet access to the grid remains constrained. Simplifying grid connection processes and ensuring reliable energy supply will help industrial growth and attract manufacturing enterprises.

Another opportunity lies in leveraging seized Russian assets to finance Ukraine's reconstruction—a bold yet proportionate step given Russia's three-year campaign of aggression. While legal sensitivities, including sovereign immunity protections under international law and the lack of precedents for such confiscation, pose challenges, these issues could be addressed. However, the key obstacle remains the political will in the West. Overcoming these hurdles and establishing a transparent mechanism to allocate funds from seized assets could not only support reconstruction efforts but also reinforce a firm stance on international accountability.

Preventing Monopolization and Ensuring Fair Competition

One of the most pressing risks in reconstruction is the monopolisation of resources by oligarchic groups. Ukraine's oligarchs, including figures like Rinat Akhmetov, have historically dominated vital sectors such as energy and infrastructure. Without safeguards, these actors could disproportionately benefit from reconstruction projects, perpetuating inefficiency and corruption. A reliance on oligarchic entities would also undermine Ukraine's narrative of reform and modernisation, potentially jeopardising donor and investor trust.

Strategies to mitigate monopolisation include establishing new supervisory frameworks for public procurement. A proposed model involves creating independent agencies tasked with overseeing reconstruction projects, with boards comprising Ukrainian and European experts. This dual over-

sight would ensure fair competition, promote transparency, and reduce opportunities for rent-seeking behaviour.

The need for institutional reform extends to Ukraine's road construction and energy sectors, which are notorious for inefficiency and corruption. These agencies must be restructured entirely, and modern procurement practices must be introduced. For instance, adopting digitalised, publicly accessible tender processes could enhance accountability while ensuring competitive bidding.

The Role of Narrative in Investment

Beyond regulatory reform, Ukraine must construct a compelling narrative to attract both domestic and international investors. Reconstruction efforts should emphasise the creation of a "new Ukraine" characterised by modern schools, sustainable housing, and efficient public services. Highlighting transparency and efficiency success stories can serve as proof for broader investment viability.

Transparent reporting is crucial to this narrative. Detailed public records of project costs, progress, and outcomes can bolster investor confidence while demonstrating Ukraine's commitment to reform. This approach attracts financial capital and strengthens Ukraine's position in negotiations with international donors and creditors.

6. EU Enlargement and Geopolitical Context

Public Sentiment on Enlargement

The EU faces a critical challenge in aligning its public narrative around enlargement with the reality of Ukraine's accession. The EU's historical expansion has often relied on geopolitical imperatives, yet recent surveys reveal scepticism among citizens of member states regarding further enlargement. This sentiment underscores the need for a recalibrated strategy that emphasises Ukraine's moral and strategic significance and articulates tangible benefits for current EU citizens.

While the moral argument for Ukraine's inclusion—rooted in solidarity amidst Russian war of aggression—resonates strongly, it is insufficient to secure widespread support. Many European populations demand concrete, localised benefits from enlargement, particularly regarding economic opportunities, demographic revitalisation, and geopolitical security. A recent study by the Wilfried Martens Centre found that the moral justification for Ukraine's accession fares better than for other candidates. Still, the geopolitical argument remains abstract for much of the EU's population. Transforming this abstract notion into specific examples of mutual gain is critical.

One area where this transformation can occur is through targeted public engagement campaigns. Highlighting how Ukrainian integration can address labour shortages, contribute to energy security, and enhance Europe's economic resilience will be crucial. Such campaigns must also address existing fears, including potential disruptions to EU policies like the Common Agricultural Policy and Cohesion Policy, which remain contentious among larger member states like Germany and France.

Addressing Politicization and Challenges in Enlargement

Enlargement has become increasingly politicised, moving from a technocratic process to a subject of intense political debate within member states. As the EU balances its strategic interest in Ukraine with internal policy constraints, it must contend with the complex interplay of national interests, domestic politics, and institutional inertia.

The EU's enlargement methodology, updated under pressure from member states such as France, remains rigid in its focus on merit-based principles. While this ensures accountability and alignment with EU standards, Ukraine's unique circumstances—marked by active conflict and post-war reconstruction—demand a more tailored approach. Proposals for phased or gradual integration, wherein Ukraine gains access to select EU benefits before full membership, offer a pragmatic solution. This approach mitigates immediate political resistance while maintaining the momentum of Ukraine's accession process.

However, Ukraine must demonstrate substantial progress in governance, anti-corruption, and economic reforms to sustain political support within the EU. The country's ability to manage EU funds transparently and deliver measurable results in reconstruction projects will be scrutinised. Successes in these areas can serve as proof points to counter scepticism among member states and strengthen the political case for Ukraine's accession.

Countering External Influence

The EU's strategic interest in Ukraine extends beyond enlargement, encompassing its role as a buffer against external powers such as China and Russia. The ongoing war has highlighted the geopolitical stakes of Ukraine's alignment with the West, with China poised to exploit any gaps in Western investments for its strategic gain.

In this context, fostering Western investment is not merely an economic priority but a geopolitical necessity. Proposals for coordinated EU actions, including insurance mechanisms to mitigate investment risks, streamlined regulatory frameworks, and targeted support for small and medium enterprises, could bolster Ukraine's integration into Western markets. The EU's failure to act decisively risks ceding influence to China, whose Belt and Road Initiative has already made inroads in other post-conflict and developing regions.

At the same time, the EU must strengthen its internal cohesion to project unified leadership in Ukraine's recovery. This includes revising institutional structures to accommodate new members without paralysing decision-making processes. Proactive measures, such as reallocating resources under the Cohesion Policy and updating voting mechanisms to reflect the realities of an expanded union, will be essential for maintaining unity while pursuing enlargement.

7. Going Forward

Ukraine's reconstruction and European integration are inseparable, demanding decisive action across finance, governance, infrastructure, and geopolitics. The following priorities are critical for driving progress and ensuring success.

1. **Stabilize Finances and Institutions.** Ukraine's $40 billion budget deficit for 2025 underscores the need for urgent, streamlined financial support. Delays in disbursements from international donors, particularly the EU, must be eliminated to sustain essential services and avoid eroding trust. Governance reforms are equally crucial: transparent oversight of public procurement and independent supervisory bodies are needed to root out inefficiencies and corruption.
2. **Build Modern, Sustainable Infrastructure.** Reconstruction must go beyond restoration—this is Ukraine's chance to construct a modern, green economy. Priority should be given to energy grids, transport networks, and public buildings that reflect European standards. Regulatory streamlining for renewable energy projects is essential to unlock investment, while institutional reform is needed to overcome Ukraine's historical inability to absorb significant capital.
3. **Engage the Private Sector.** Private investment is crucial in scaling Ukraine's recovery. Streamlined insurance mechanisms and guarantees through the EU's investment framework will reduce risk and attract capital. Leveraging seized Russian assets, though legally complex, could finance flagship projects and signal accountability. Transparency in public spending will further enhance investor confidence and showcase Ukraine as a serious partner.
4. **Address Labor and Demographic Gaps.** Labour shortages threaten recovery. Ukraine must prioritise training programs tied to reconstruction projects and create incentives for displaced citizens to return. Integrating labour considerations into EU enlargement policies will allow Ukraine to tackle domestic needs while addressing Europe's demographic crisis.
5. **Accelerate EU Integration.** Ukraine's EU path requires flexibility and innovation. Phased integration—offering select benefits before full membership—can maintain momentum while addressing reform challenges. Ukraine's ability to demonstrate effective use of EU funds and progress on anti-corruption measures will be crucial in building trust and securing political support across member states.

6. Assert Geopolitical Leadership. Ukraine's reconstruction is a strategic opportunity for the West. Substantial Western investment is essential to counter Chinese and Russian influence. Coordinated action by the EU, G7, and other partners will ensure Ukraine aligns with European interests.

Institute of European Right

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