



Ukraine reconstruction project

The newsletter on the main recent developments

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As we step into the third year since Russia's full-scale invasion of Ukraine, the resilient spirit of the Ukrainian nation persists as it addresses immediate needs and strategic plans for reconstruction. While awaiting resolution on the US aid package, Ukraine has been actively forging security agreements with its international partners, solidifying collaborative efforts and bolstering military support.

In this February edition of our newsletter, after two years of ongoing war, we delve into the insights from the third edition of the Rapid Damage and Needs Assessment conducted by the Government of Ukraine, the World Bank Group, the European Commission, and the United Nations. The assessment reveals an estimated cost of \$486 billion for reconstruction needs over the next decade.

February has emerged as an important month marked by key decisions related to Ukraine's recovery. This edition highlights significant developments, including the European Union's approval of the €50 billion Ukraine Facility, a crucial financial instrument designed to support the country's reconstruction over the next four years. Additionally, we explore the outcomes of the Japan-Ukraine Conference, where over 56 cooperative documents were signed.

Our coverage extends to the dynamic developments in Ukraine's electricity trade and the private sector's active role in Ukraine with such initiatives as another acquisition by NJJ Capital, German Rheinmetall's manufacturing plans, and the commissioning of the M10 Lviv Industrial Park by Dragon Capital.

Ukraine reconstruction: key figures

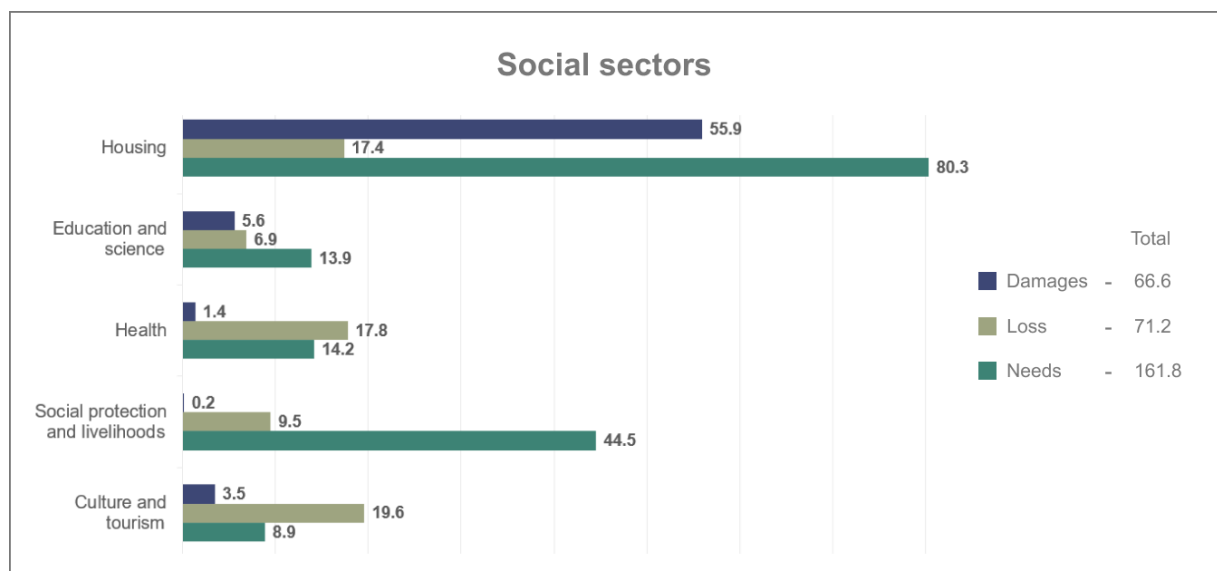
RDNA 3: Update on Damages and Needs

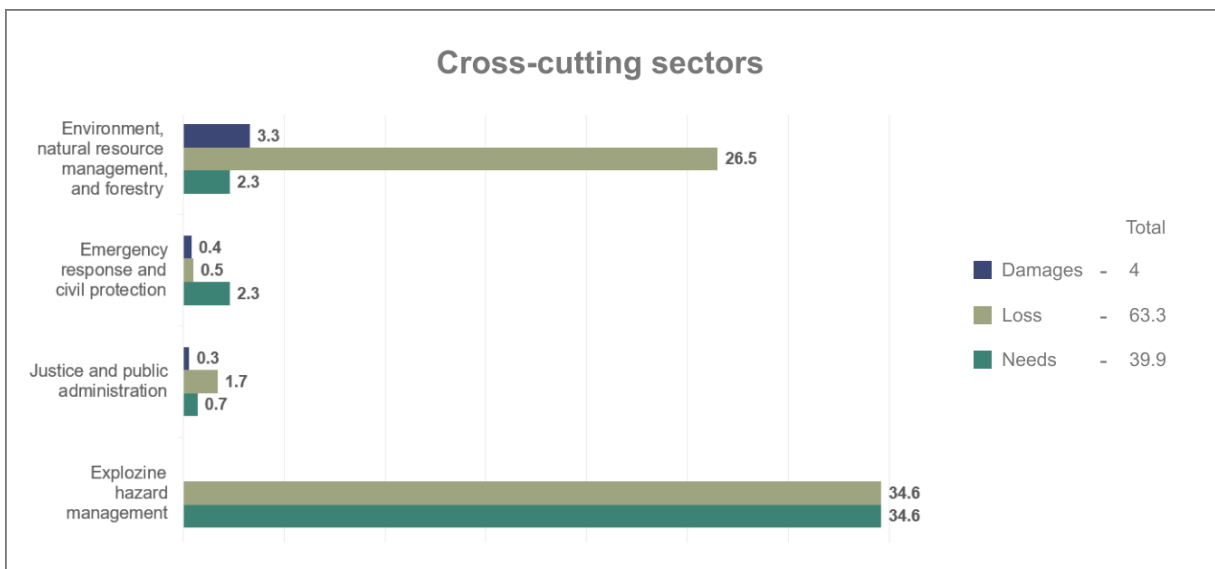
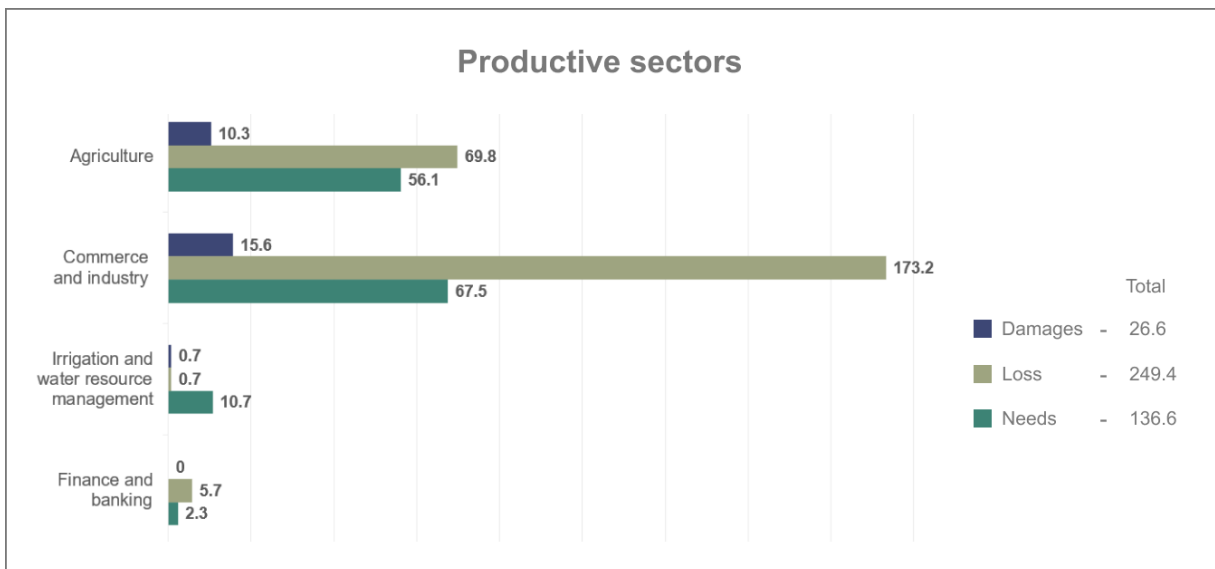
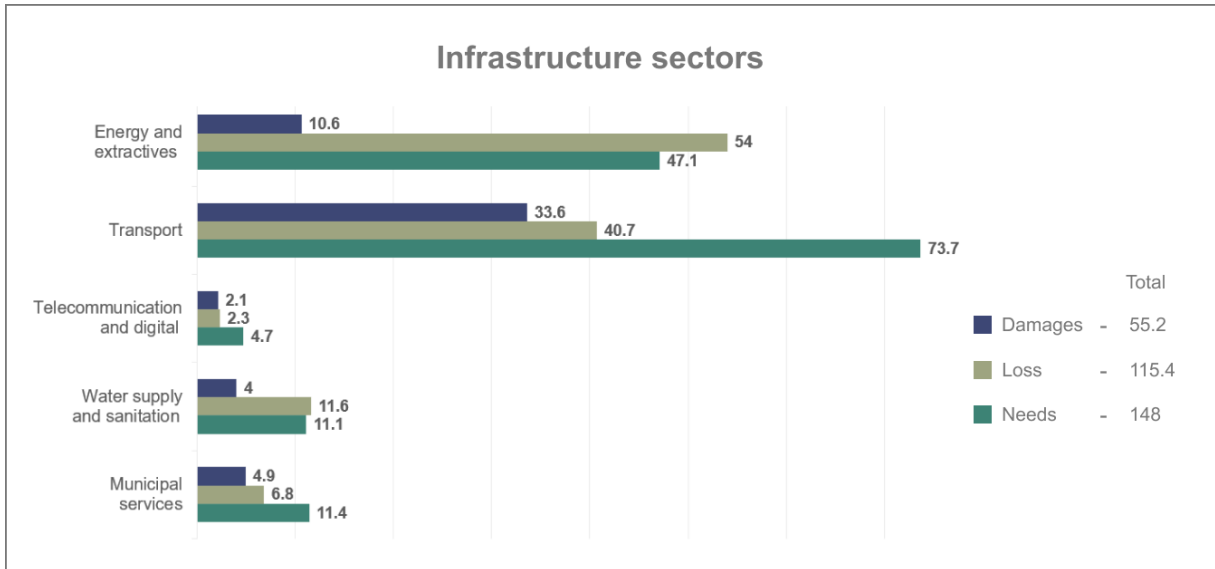
On February 15, after almost two years of Russia's full-scale invasion of Ukraine, an updated [joint Rapid Damage and Needs Assessment \(RDNA3\)](#) was released by the Government of Ukraine, the World Bank Group, the European Commission, and the United Nations. It currently estimates that as of 31 December 2023 the total cost of reconstruction and recovery in Ukraine is \$486 billion (€452.8 billion) over the next decade, up from \$411 billion (€383 billion) estimated one year ago.

Damages, losses and needs:

- **\$486 billion (€452.8 billion)** is the estimated total cost of recovery and reconstruction needs for the next decade.
- **+\$75 billion** in needs compared to the estimates in February 2023.
- **\$15 billion (€14 billion)** needed for immediate reconstruction efforts in 2024 alone from which:
 - **\$5.5 billion (€5.1 billion)** of this funding has been secured from both Ukraine's international partners and its own resources.
 - **\$9.5 billion (€8.9 billion)** is currently unfunded.
- **\$152 billion (€141.6 billion)** of direct damages with housing, transport, commerce and industry, energy, and agriculture as the most affected sectors.
- **\$499 billion (€465 billion)** of total economic, social, and other monetary losses.

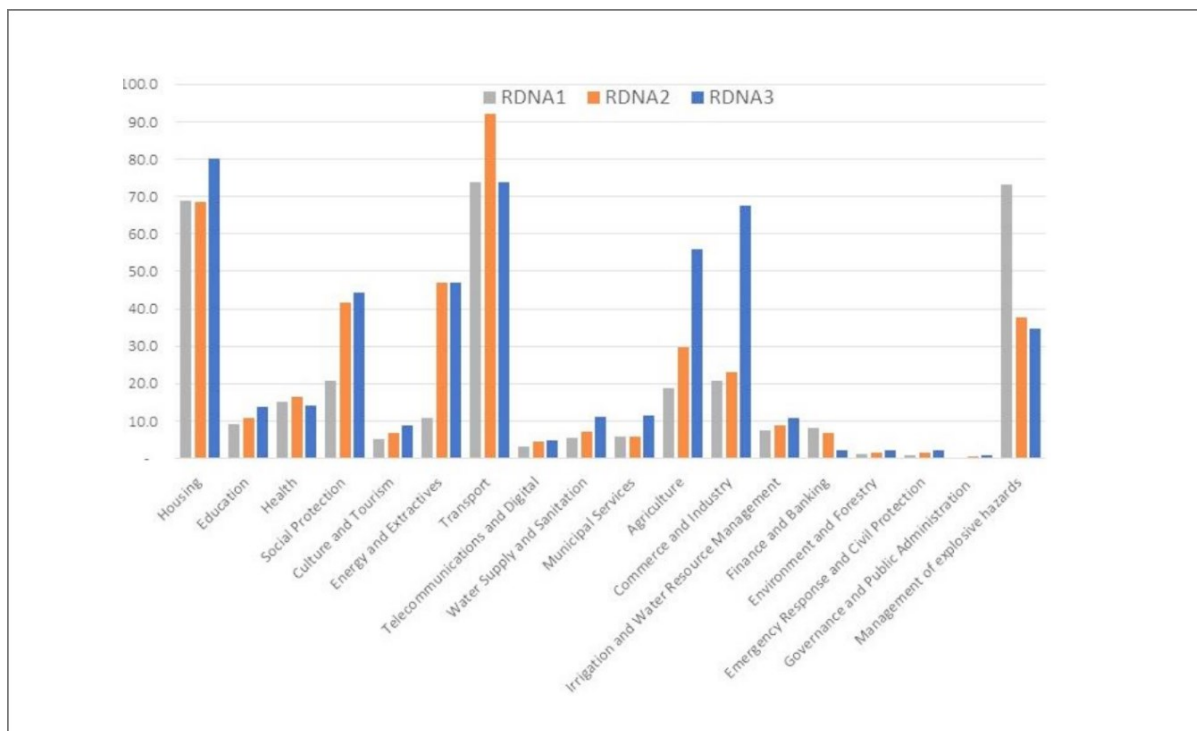
Total damage, loss, and needs by sector (in US\$ billion):





Following the previous assessment (RDNA2), the Government of Ukraine, with the assistance of international partners, has effectively addressed some of the most pressing needs. For instance, in the housing sector, \$1 billion (€931.7 million) was allocated in 2023, focusing predominantly on the repair and reconstruction of damaged buildings. The transport sector witnessed over 2,000 km of emergency repairs on motorways, highways, and other national roads. Additionally, in the education sector, local authorities undertook the reconstruction of approximately 500 educational institutions and since January 2023, the share of educational institutions with bomb shelters has increased from 68% to 80%.

Comparison of needs in RDNA1, RDNA2, and RDNA3 (in billion US\$)



Sources: The World Bank, RDNA 3, European Commission

International benchmark

Unlocking the €50 billion Ukraine Facility by EU

On 28 February, the Council of the European Union approved the launch of the €50 billion Ukraine Facility for 2024-2027. The decision of the EU Council is the final step in the launch of the Facility.

Following months of defiance from Hungary, European leaders reached an agreement on the four-year funding for Kyiv during a European Council summit on February 1. The European Parliament granted its approval on February 27.

The total size of the Facility will be of €50bn, of which €17bn in grants and €33bn in loans. Under the instrument, Ukraine will receive around €39 billion in direct budget support over the period 2024-2027, of which more than €5 billion will be grants. The remaining funds will be allocated for the creation of a special investment instrument (nearly €7 billion), as well as support for implementing reforms and covering interest on preferential loans (€4.76 billion).

The instrument also includes a Bridge financing mechanism, which, after the signing of the relevant international agreements, will open the way to attract the necessary financing in a shorter period of time before the start of the Facility. According to Ukraine's Ministry of Finance, the Loan Agreement and Memorandum are expected to be signed in early March.

However, as stated by the First Deputy Prime Minister of Ukraine - Minister of Economy Yulia Svyrydenko, receiving budgetary support within the Ukraine Facility entails meeting several conditions. This includes conducting structural reforms in the public sector, implementing economic transformations to improve the business climate and entrepreneurship, as well as taking steps to develop priority sectors.

Following the approved regulation, Ukraine must also refine the Plan, considering a list of conditions. After incorporating the final requirements of the Ukraine Facility regulation into the Plan, it will be approved by Cabinet of Ministers of Ukraine and then submitted for review by European Commission.

Sources: Ministry of economy of Ukraine, Ministry of finance, European Parliament



Japan-Ukraine Conference for Promotion of Economic Growth and Reconstruction

On February 19, 2024, the Japan-Ukraine Conference for Promotion of Economic Growth and Reconstruction was held in Tokyo by both Prime Ministers of Japan and Ukraine with the participation of public and private sectors from both countries.

A total of **56 cooperation documents** were signed during the conference, including intergovernmental agreements, memorandums, and arrangements between businesses and local authorities. More than a dozen agreements have been reached with major Japanese organisations to support Ukraine's reconstruction: JICA, JETRO, NEXI Export Credit Agency and Japan Bank for International Cooperation. More than 30 documents involve Japanese companies such as Rakuten Symphony, Padeco, Sojitz Corporation, Izuzu Motors Limited, Sumimoto Corporation, Kakuichi and others.

According to the Head of Ukrainian Government, **Japan will allocate EUR 1.25 billion to support Japanese investors in Ukraine in a new programme** of the Japanese export credit agency NEXI. It will consist of two parts: 1) guarantees for Japanese investors and 2) a credit line for the export of Japanese goods for the implementation of Ukraine's recovery projects.

Noteworthy agreements include also the Tax Convention, the establishment of the JETRO office in Kyiv and **grant aid within the programme for emergency recovery for 15.8 billion yen (app. €97 mln)**.

Additionally, the Japanese Government has the **intention to allocate USD 4.5 billion in financial budget assistance this year**.

Source: Prime Minister's Office of Japan, Ministry of Foreign Affairs of Japan, Governmental Portal



Key developments for Ukraine's reconstruction

ENTSO-E has increased the opportunities for exporting electricity from Ukraine

End of February, the European Network of Transmission System Operators for Electricity (ENTSO-E) has increased the capacities of cross-border interconnectors for the export of electricity from Ukraine and Moldova to EU countries by 150 MW. As mentioned by the CEO of Ukrainian transmission system operator NPC Ukrenergo Volodymyr Kudrytskyi, this capacity is equivalent to the operation of one additional unit of a thermal power station.

Starting from March 1, the maximum transmission capacity from the Ukraine/Moldova block to the Continental Europe zone will be 550 MW.

According to Kudrytskyi, the trade with other countries, with a growing share of exports, is a consequence of the fact that despite disruptions, regulatory challenges, and debt issues in the market, **the energy system still operates stably and is part of the extensive European continental network.** Opportunities for this are created: access to cross-border interconnectors is sold through general auctions under the same rules for all of Europe.



ENTSO-E is gradually boosting **the technical capacity to import electricity into the Ukraine/Moldova bloc, and the permitted capacity is 1,700 MW** as of December 1, 2023. The technical capacity for exports from Ukraine and Moldova to Europe was previously limited to 400 MW.

ENTSO-E, the European Network of Transmission System Operators for Electricity, is the association for the cooperation of the European transmission system operators (TSOs). On 16 March 2022, the TSOs of Continental Europe agreed to proceed with the emergency synchronisation of the Ukrainian-Moldovan power system with the Continental Europe power system. In November 2023, Ukrenergo has already fulfilled key technical conditions to ensure permanent interconnection between the power systems of Ukraine and Europe and the synchronisation project between the Ukrainian power system and the Continental European network has been completed, 1.5 years ahead of schedule.

Sources: Ukrenergo, ENTSO-E

Focus on private sector

Following the deal \$500 million deal for mobile operator Lifecell, French billionaire's investment firm NJJ Capital's is buying Datagroup

According to Interfax-Ukraine, after an agreement on acquiring the mobile operator Lifecell, the **French billionaire Xavier Niel's NJJ Capital is now acquiring assets of the national fixed-line and digital services operator Datagroup-Volia**. That has been confirmed to the information agency by the Antimonopoly Committee of Ukraine (AMCU).

The AMCU received the application from NJJ Capital and Datagroup Holding Limited representatives seeking approval for **NJJ Capital's indirect acquisition of Datagroup Holding Limited's shares, resulting in over 50% of voting rights in the company**. The application, submitted on December 29, did not meet the committee's requirements, and was returned to the applicants mid-January 2024.



A renewed application for control acquisition by DVL Telecom (Paris, France) – a business entity within the NJJ Group – over Datagroup Holding Limited was submitted to the committee on January 23, 2024 and is being considered by AMCU.

Datagroup-Volia is one of the leaders in the Ukrainian telecommunications industry. In June 2021, Datagroup finalized the acquisition of 100% of the Ukrainian pay-TV and cable high-speed Internet access provider Volia Group, a deal supported by EBRD. The company is also actively developing the cloud services business — Volia's data center provides cloud and physical servers for use, offers hosting, colocation of clients' servers, IaaS cloud infrastructure, and a large list of related services. The company has been chosen as a service provider to host more than 3,000 servers. **Datagroup is 96% owned by a fund managed by Horizon Capital, with its CEO holding remaining shares.**

Source: Interfax Ukraine, UBN, Horizon Capital

German Rheinmetall starts manufacturing in Ukraine

German defense manufacturer Rheinmetall AG is set to open a new plant in Ukraine to produce artillery ammunition in partnership with a local joint venture. The company will hold a 51% stake, with the remaining 49% owned by the Ukrainian partner. This move follows

Rheinmetall's earlier announcement to produce armored vehicles, including Fuchs and Lynx, in Ukraine in 2023.

Rheinmetall is already engaged in a joint venture in Ukraine for servicing and repairing Western military hardware aiding Kyiv against Russian aggression. As one of Ukraine's key defense industry partners, Rheinmetall plays a crucial role in delivering military materials and providing logistical support.

Recognizing the long-term needs of Ukraine in re-establishing its own defence industry and reorienting its production to western standards, Rheinmetall established a joint venture in October 2023 with Ukrainian Defense Industry JSC. Currently, **maintenance and repair work is already being carried out on military vehicles; in a second step, armoured vehicles are also to be manufactured in Ukraine**, for example Fuchs/Fox armoured transport vehicles, Lynx infantry fighting vehicles and Panther main battle tanks. The objective of Rheinmetall is to turn Ukraine into an efficient partner, to rebuild its once powerful defence sector, and to assure its strategic autonomy.

Source: Rheinmetall, Bloomberg, Reuters

First Stage of M10 Lviv Industrial Park Commissioned

Dragon Capital, Ukraine's investment bank and one of the largest players in the Ukrainian real estate market, announced on February 26 the commissioning of the first stage of M10 Lviv Industrial Park, a class A warehouse complex with an area of 14,400 sq. m.

M10 Lviv Industrial Park is a brand-new industrial development located near the industrial area of Lviv Riasne-2 on the M10 highway, some 60 km from the Krakovets checkpoint on the Ukrainian-Polish border. It covers 23.5 hectares and consists of six sites for warehouses and production facilities with a total area of 140,000 sq. m. The park's management company, Dragon Capital Property Management, ensures the security and proper functioning of its common areas and infrastructure.

The first stage of the industrial complex has an area of 14,400 sqm. Its status as industrial park provides its tenants with tax preferences, and its certification according



to the BREEAM international standard of green construction confirms the site's energy efficiency and environmental friendliness.

As mentioned previously in our newsletter last October, in 2023, **the EBRD invested \$5.5 million in the project**, part of its total investment committed for M10 Lviv Industrial Park of \$24.5 million. Also, the Multilateral Investment Guarantee Agency of the World Bank (**MIGA**) **insured the project against war risks for 10 years for an investment amount of \$9.2 million.**

Further development of M10 Industrial Park envisages the construction of build-to-suit warehouses, a format where the properties will be designed and built in line with their tenants' specifications.

Source: Dragon Capital, Advantage Ukraine

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[1] Where permitted under applicable country laws.