Partnering for Ukraine's reconstruction

mazars

Disclaimer

This perspective was prepared in the context of the ongoing war in Ukraine, and hence, changes may occur in the referenced data and any updated analysis of the possible implications on economic growth or global commodities markets. The report is based on research work conducted by Mazars in cooperation with STRATEGIA Partners.

Contents

Foreword

The world is in flux. It was just barely recovering from the COVID-19 pandemic when the reverberating effects of the war in Ukraine caused seismic shocks across societies and economies. This conflict diminished the likelihood of a post-pandemic economic rebound, weakened the world economy and led to higher inflation, higher interest rates and tightening global financing. In addition, the war caused alterations in the geopolitical landscape and security, as well as disruptions in commodity markets and supply chains, endangering the stability of Europe and international systems and having a substantial influence on global food, energy and climate security.

One year later, the ongoing war is still a humanitarian, economic and environmental crisis. Last year, Ukraine's gross domestic product (GDP) contracted by 29.2% as a result of millions of people being displaced within the country or fleeing abroad, as well as a crippling of the state's infrastructure, energy and transport networks and critical sectors, notably agriculture and industrial commodities. The effects continue to have far-reaching repercussions beyond Ukraine. Despite this, the Ukrainian government and people continue to demonstrate perseverance, restraint, national togetherness and dedication to recovery and reconstruction.

Ukraine has received unprecedented levels of material, moral and short-term macro-financial aid to maintain its financial viability. Businesses, investors and international donors have all pledged support for Ukraine's long-term reconstruction efforts. In March 2023, a joint assessment by World Bank, the European Commission and the Ukrainian government estimated that restoration and recovery would cost approximately US$411 billion. This number will undoubtedly increase. But the intricacy and fast-shifting dynamics of the war obscure 'how and when' the war will end and 'what' the first steps (by Europe and the international community, including the private sector) will be to rebuild and recover the country. Nonetheless, the escalating situation calls for going beyond maintaining the 'survival mode' and, in parallel, accelerating the groundwork layout for reconstruction.

Reflecting on our work and discussions with many experts, Mazars has developed this perspective and identified three imperatives to support Ukraine as it continues the process of reforming and sets out to implement a new strategic vision for its sustainable reconstruction. These imperatives are economics, collaboration and digitisation.

The perspective is divided into three parts:

1. **Part 1** presents the implications of the war on global markets and sheds light on Ukraine's current economic situation.
2. **Part 2** outlines the key disruptions reshaping Ukraine across its key social, infrastructure and productive sectors, and provides guidance on the range of potential opportunities emerging from the reconstruction.
3. **Part 3** presents an optimistic view in which the war ends, examing Ukraine's continued path to reforming the country and its untapped potential, as well as discussing the three imperatives to consider as stakeholders get ready to seize pertinent reconstruction opportunities.

We hope that you find this perspective useful, and we look forward to continuing our dialogue with you. Mazars Group continues to support Ukraine and its citizens in recovery and reconstruction efforts.

Grégoire Dattée
Managing Partner,
Mazars in Ukraine

The war in Ukraine and a domino effect felt globally

The war in Ukraine caused seismic shocks worldwide. Despite the continuing attacks, Ukraine has shown remarkable resilience and commitment to rebuilding itself. With the country's reconstruction top of mind for many global players, both public and private, this could be a watershed moment for a sustainable future. Here's how.

A war between two major players, both key producers and exporters, in the energy, food, fertilisers and minerals markets[1] sent waves across global resources markets. And reactions to the war, prime among them economic sanctions (price caps and bans on Russian oil and gas), supply chain disruptions (Russia's blockading of Ukraine's ports), trade restrictions and policy interventions, caused significant spikes in commodities prices. This translated into significant global disruption that impacted production, logistics and business far beyond Ukraine's borders.

Before the war, Russia was a key supplier of oil and gas to the EU (~40%), with its largest importers being Germany, Italy and the Netherlands. Hence, the supply squeeze and higher prices left millions of consumers fearful for their energy security. In response, governments raced to find alternative sources of supply, even tapping coal, which raised concerns about climate change targets. Equally, the agriculture industry (which is energy-intensive) struggled with higher production costs, supply constraints and higher fertiliser prices. The knock-on effect of these soaring prices and supply chain disruptions contributed heavily to inflationary pressures building in the European Union (EU) and beyond during a period of post-pandemic recovery.

Inflation in the EU and Ukraine

Since 2021, the EU has seen an increase in inflation. Europe's very open economy leaves it particularly vulnerable to disruptions in global markets and value chains. Hence, the war and ensuing increase in consumer prices spiked annual inflation rates across the Eurozone. According to Eurostat data, annual inflation in the EU rose from 1.3% in February 2021 to 2.7% a year later. In February 2023, inflation was more than triple what it was in February 2021, standing at 8.5%.

Sector-specific data from December 2022 shows the rising inflation rate for food at 17.9%, and the rate for housing, electricity, gas and other fuels at 17.3%. Despite all this, recent European Central Bank projections signal a stabilisation of EU inflation for the coming years due to the EU's decrease in natural gas consumption, lower energy prices and energy supplies becoming more secure.

Ukraine's inflation rate grew quickly after independence but slowed down with the introduction of a new currency – the hryvnia (UAH) – in 1996. The government established an inflation targeting system over several years, with the aim to keep annual price growth below 4%-6%. Only on two occasions has this goal been achieved, in 2019 and 2020. Ukraine's annual inflation rate stood at 9.4% in February 2021 and 24.9% in February 2023.

1 Commodities include fertilisers, oil and gas, chemicals, coal, agri production and refined aluminium products from Russia, and wheat, oil seeds, corn, barley, nickel, titanium, iron ore and coal from Ukraine. Russia and Ukraine supply 28% of globally traded wheat, 29% of barley, 15% of maize and 75% of sunflower oil.

The war in Ukraine and a domino effect felt globally

Ukraine... an economy on the frontline

With the war well into its second year, Europe and the rest of the world hope for an end. However, the escalating situation continues to be a humanitarian, economic and environmental crisis for Ukraine and its people, with rippling effects globally. As of May 2023, Ukraine has sustained immense damage, with 40% of its population in dire need of humanitarian assistance, 30% of its infrastructure damaged, 335 foreign businesses withdrawn from the country and its GDP experiencing its worst economic decline since it gained independence in 1991.

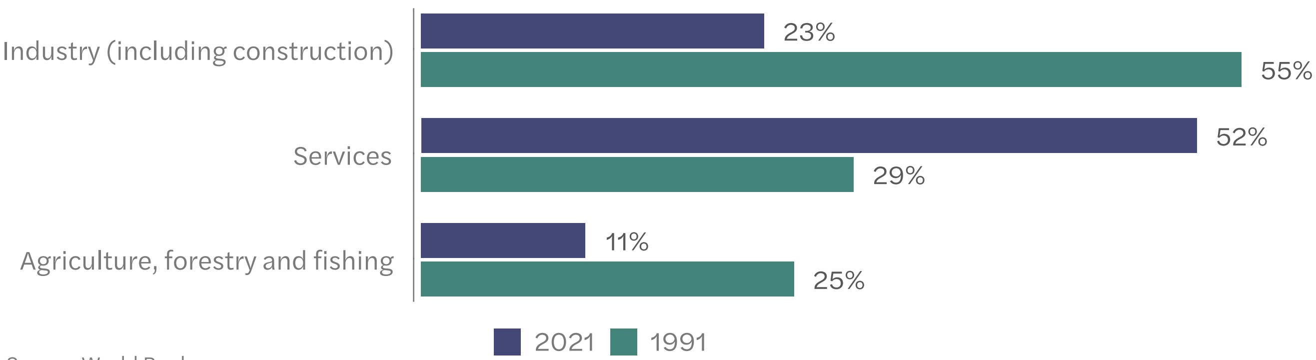
The economic carnage in Ukraine's economy is proving existential. As of May 2023, Ukraine's overall economic losses due to the war, considering both direct losses and indirect losses (GDP decline, investment cessation, outflow of labour, additional defence and social support costs, etc.), range from US$543 billion to US$600 billion[2].

The level of economic aid required is akin to the task of rebuilding Europe after 1945. Moreover, winning will mean having a strong economy and good infrastructure, supply chains, logistics and human capital in place to support critical industries.

Retrospectively, the structure of Ukraine's economy has changed since its independence. In USSR time, the country had a very large industrial-metallurgical base. After independence, however, most of the production was directed towards Russian consumers. This made Ukrainian products less competitive in global and European markets. The share of services in the country's GDP increased (from 28.9% to 55.6% by 2020), while industry decreased (from 54.5% to 20.9% between 1991 and 2020), and its share of agriculture dropped (from 24.6% to 9.3% between 2000 and 2020).

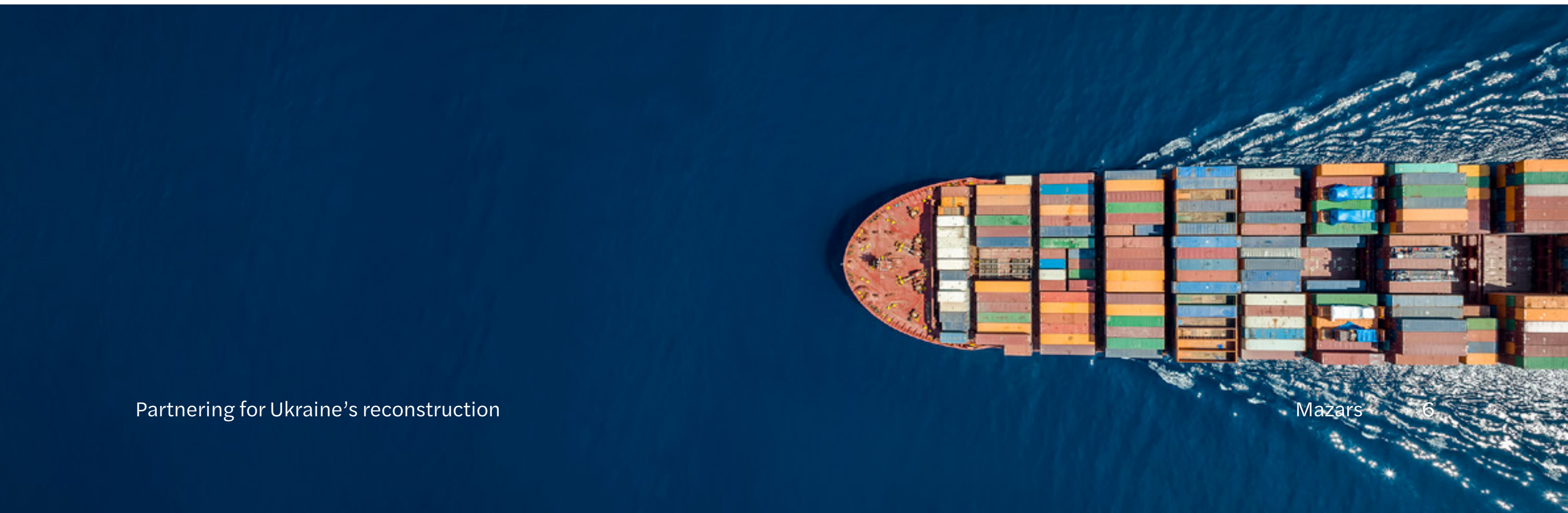
Structure of Ukraine's economy (pre-war): 2021 vs. 1991

Ukraine's economic structure (% of GDP)



Source: World Bank

2 https://kse.ua/about-the-school/news/zbitki-naneseni-infrastrukturi-ukrayini-v-hodi-viyni-skladayut-mayzhe-63-mlrd/ (Kyiv School of Economics, as of 24 March, 2023).



The war in Ukraine and a domino effect felt globally

Ukraine's GDP saw steady growth periods but also sharp drops due to global events and changes in the country. The 2008-2009 period saw the largest drop as Ukraine, just like the rest of the world, was hit by a global economic crisis. After that, the economy started to recover. Another significant decline happened in 2014-2015 due to a Russian invasion, the unfavourable domestic political climate, the annexation of the Crimean Peninsula and the occupation of a portion of the Donetsk and Luhansk regions. According to International Monetary Fund data, in 2022, Ukraine was still the poorest country in Europe and could not compete with its European neighbours. The world's average GDP per capita is US$12,880, but Ukraine's is US$4,350. Comparing Ukraine's GDP with that of EU countries is even more shocking. The EU's GDP per capita of US $37,360 is nearly 10 times greater than that of Ukraine.

29.2%

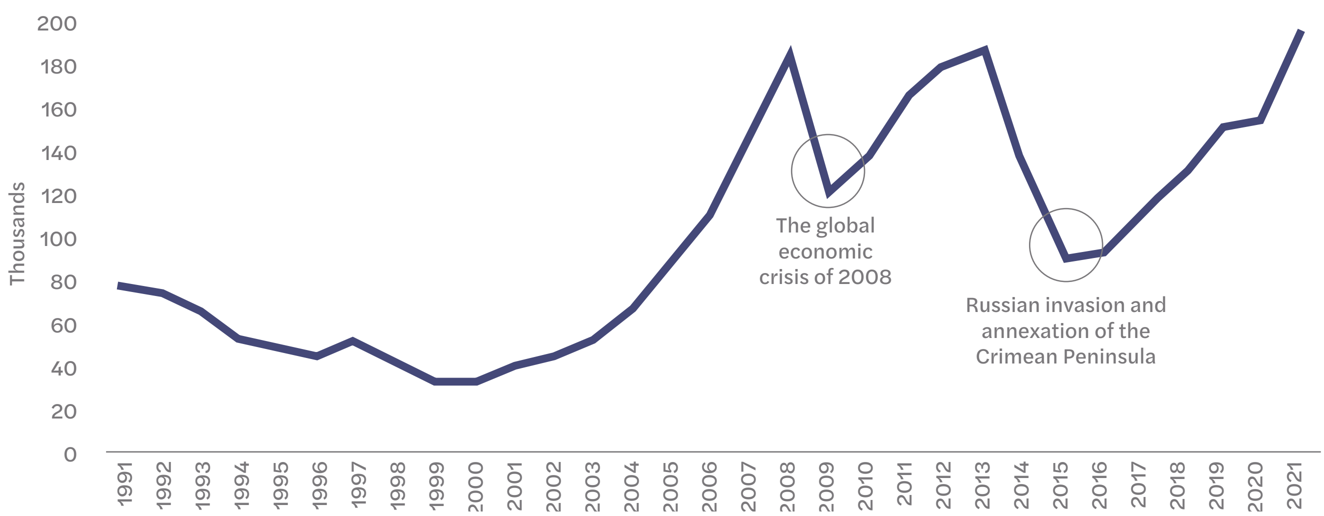
Ukraine's GDP contracted by 29.2% in 2022 as a result of the Russian war

Naturally, another Russian invasion prompted a negative economic forecast for Ukraine (GDP contracted by 29,2% according to the Ministry of Economy of Ukraine after the Ukrainian Statistics service published data for the 4th quarter of 2022[3]), resulting in the country's most affected areas accounting for almost 22% of its GDP, compared to just 12% before war broke out in February 2022. But, at the beginning of the war, the National Bank of Ukraine took all necessary measures to limit the impact of the conflict on the Ukrainian currency. Several laws were adopted to prevent shock changes in the exchange rate. Key among them were restrictions on cash withdrawals and the transfer of funds abroad; adjusting the exchange rates of foreign currencies and suspending the calculation of the exchange rate to the US dollar; temporary rejection of the use of the key rate as the main instrument of monetary policy; prohibiting banks from disbursing funds from the accounts of residents of Russia and Belarus; and liquidation of banks under the direct control of Russia. The National Bank of Ukraine also implemented several measures aimed at simplifying procedures for transferring funds to support the Ukrainian army, voluntary transfers and assistance from foreign partners.

Despite these challenges and inflationary pressures both globally and in Ukraine, estimates as of May 2023 indicate steady economic growth for the country.

Structure of Ukraine's economy (pre-war): 2021 vs. 1991

Ukraine's GDP (US$)



3 https://www.me.gov.ua/News/Detail?lang=uk-UA&id=b30e854d-b47d-4806-82ac-bb6daa87fa51&title=Minekonomiki (Ministry of Economy of Ukraine after the Ukrainian Statistics service published data for the 4th quarter of 2022).

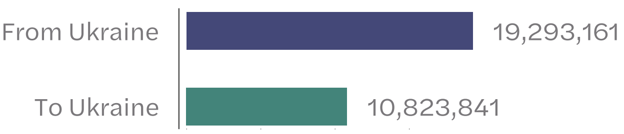
As Ukraine continues to deal with extraordinary upheaval on a daily basis, we can see several key disruptions that are reshaping the country's economy and will impact its reconstruction.

An unrelenting humanitarian crisis

The war caused a massive humanitarian crisis: Thus far, the UN estimates that more than 19 million border crossings have been recorded from Ukraine to European countries and beyond[4]. Most of those crossing are women and children, with Poland welcoming most of the refugees (about 10 million). According to United Nations High Commissioner for Refugees (UNHCR) data from 20 March 2023, 8,157,230 refugees from Ukraine have been recorded across Europe, with 4,946,920 granted temporary protection or similar national protection schemes in Europe. These estimates are expected to increase the longer the war continues. However, in the longer term, a well-coordinated global humanitarian strategy is needed to support refugees as they resettle in new countries (from immigration and housing to education and employment). More importantly, once the war ceases, support will be needed to help Ukrainians return home and attract additional human capital.

Border crossings from and to Ukraine after Russia's invasion between 22 February 2022 and 7 March 2023

Number of border crossings



Source: Statista

An industrial heartland ravaged

The occupation of key regions in Ukraine (particularly in the East and South, such as Donetsk, Luhansk, Kherson and Zaporizhzhia) is crippling the country's economy. It encompasses Ukraine's industrial heartland, with some of these regions being home to a significant amount of Ukraine's production potential across critical industries, such as agriculture, energy, ferrous and non-ferrous metallurgy and chemicals, as well as its maritime transport sector.

Much of Ukraine's raw materials are in the eastern and southern parts of the country, which are partially occupied. For instance, most of the coal deposits that power Ukraine's critical steel industry are concentrated in the occupied East. This has led to a loss of 30%-40% of the local steelmaking capacity. To date, Ukraine has had seizures of 41 coal fields, 27 natural gas sites, 14 propane sites, nine oil fields, six iron ore deposits, two titanium ore sites, two zirconium ore sites, one strontium site, one lithium site, one uranium site, one gold deposit and a significant quarry of limestone previously used for Ukrainian steel production. These resources are used to generate power and support the country's industrial activities, as well as many industries globally. This lack of raw material supplies has threatened Ukraine's strong commodity markets and its ability to sustain an industrial market. Losses in industrial commodities continue to impact various sectors from telecommunications and high-tech components to aviation, further undermining Ukraine's economy and pressurising its energy supply.

4 www.statista.com (UNHCR; Various sources (Government of Ukraine).

Ukraine shaken and reshaped for the future

Looking ahead, Ukraine faces a stark threat that its metals and minerals sector will be reduced, compelling the government to realign its economy. To stabilise the situation, the government is taking the steps necessary to relocate such enterprises to safer parts of the country. According to the Ukrainian Ministry of Economy, as of March 2023, 800 companies have already been fully relocated under the programme and 623 of them have already fully recovered their operations.

In addition, these regions also account for Ukraine's key exports, such as heavy industry and agricultural products. Hence, the seizure and blockage of key Ukrainian ports has also impacted the export sector for key commodities and significantly impacted the agriculture and minerals reserves sector. This matter, in particular, was rectified with the signing of the Black Sea Grain initiative in July 2022, an agreement between Russia and Ukraine that allowed for the export of grain, other foodstuffs and fertilizers, including ammonia, from Ukraine. The initiative saw significant volumes of commercial grain exports move from three key Ukrainian ports in the Black Sea – Odesa, Chornomorsk and Yuzhny/Pivdennyi – to world markets. There is a keen opportunity in the reconstruction phase to strategically remap, redevelop and protect the Ukrainian industrial heartland in order to future-proof its economic stability and long-term economic security.

Ukraine's export market

Ukraine's main exports are heavy industry (mainly steel) and agricultural products. In 2021, metals accounted for 20% of exports, followed by agricultural products at 18%. Ukraine's agricultural exports are important not only for the European region but also for many countries globally. In 2020, Ukraine earned more than any other country from grain exports. Sunflower oil is a significant and very important Ukrainian export, with the country being the world's largest exporter of the product. The largest oil processing and exporting company in Ukraine is Karnel agricultural holding. In 2021, Europe was Ukraine's main import destination region, accounting for about 43.5% of the total import value. Asia followed with nearly 27% of imports, and Africa accounted for slightly over 1%.

Top 10 Ukrainian exports

Item	US$m	Top 3 partner countries
Iron ore	6.9	China, Czech Republic, Poland
Sunflower oil	6.4	India, China, Netherlands
Corn	5.9	China, Spain, Netherlands
Wheat	5.1	Egypt, Indonesia, Turkey
Steel semi-products	4.1	Italy, Turkey, Dominican Republic
Flat rolled carbon steel	3.7	Turkey, Poland, Russia
Cast iron in lumps	1.6	USA, Italy, Turkey
Cables	1.6	Germany, Poland, Romania
Barley	1.3	China, Turkey, Saudi Arabia
Ferroalloys	1.0	Turkey, Italy, China

Source: State Statistics Service of Ukraine

Ukraine shaken and reshaped for the future

Chemicals is another primary sector of Ukraine's economy, and before the war, Ukraine had a thriving synthetic chemistry sector. The sector covers chemical, petrochemical and pharmaceutical; is heavily reliant on raw materials; and is energy intensive. The chemical industry[1] recorded sales of approximately €11.8 billion in 2021, an increase of around 40% since 2020. This equated to 8.2% of national industrial output and 5.9% of Ukraine's GDP in 2021.

Many companies across Ukraine's chemical industry have been severely impacted and have had to suspend production and operations. This is primarily due to disruption to supply chains and access to raw materials and the constraints of a reduced workforce. The industry is also coping with global factors such as rising prices for hydrocarbons. To give a sense of Ukraine's chemical sector in a global context, around 80% of all screening compounds used around the world in the research and development of drugs were either manufactured in Ukraine or Russia. In addition, about half of the world's neon (a by-product of steel manufacturing), a critical gas in advanced semiconductor manufacturing comes from Ukraine. More than 90% of U.S. semiconductor-grade neon, which is critical for lasers used in chipmaking, is produced in Ukraine.

According to government agencies, US$5-15 billion is needed to rebuild the Ukrainian chemicals sector. To capture this opportunity, Ukraine will need to acquire the technical resources, expertise and human capital necessary and implement state-of-the-art safety procedures.

1 Mining chemistry (extraction of raw materials), basic chemistry (production of mineral fertilizers, inorganic acids and soda), chemistry for the production of polymeric materials and pharma-industry.

Ukraine's critical infrastructure

Ukraine's critical infrastructure has suffered the greatest loss. Already in desperate need of modernisation and reconstruction, Ukraine's deteriorating infrastructure had not been accorded sufficient priority before the Russian invasion. For example, Ukraine's operational railway network is one of the largest in Europe (transporting 60% of the country's total exports) and is almost entirely outdated. Insufficient financing and corruption at several levels of government regulation are the primary reasons for the problem.

However, in 2019, the government attempted to develop initiatives that gave infrastructure difficulties their due consideration. A package of reforms was developed to bring about alterations to the country's infrastructure, supported by international partners and organisations. Also, in 2021, the Ukrainian government adopted a development programme, which included a national transport strategy titled 'Drive Ukraine 2030'. This strategy aimed to modernise or reconstruct the country's airports, roads, railways, public transport and ports. Additionally, Ukraine has become an important transit partner for the EU (as part of the TEN-T programme).

Today, the country's critical infrastructure is a primary target of the ongoing Russian attacks, with the most severe effects on the housing sector (residential buildings) and energy infrastructure, which is being methodically destroyed. Ukraine is still in control of its energy reserves, yet many of the best Ukrainian sites for producing renewable energy (hydro, wind, solar and biomass) are in occupied or seized regions. For example, 50% of the country's current renewable energy sources (mostly wind farms) are in these territories and not operational.

To date, at least 153,000 residential buildings, 426 large and medium-sized private and state-owned enterprises (factories/warehouses), more than 3,000 education institutions, 1,216 healthcare facilities, 19 airports, all Ukraine-controlled coal power plants (CPPs) and hydroelectric power plants, 13 combined heat and power plants (CHPPs), and one nuclear power plant have been damaged, destroyed or seized. As of March 2023, the estimated total damage to Ukraine's infrastructure is valued at approximately US$144 billion[5] and rising. The reconstruction of Ukraine's infrastructure will be essential to recovery efforts, and significant investment and innovation will be required. These projects will almost certainly need to be financed in whole or in part by foreign investors.

5 https://www.statista.com/statistics/1303344/ukraine-infrastructure-war-damage/.

Ukraine shaken and reshaped for the future

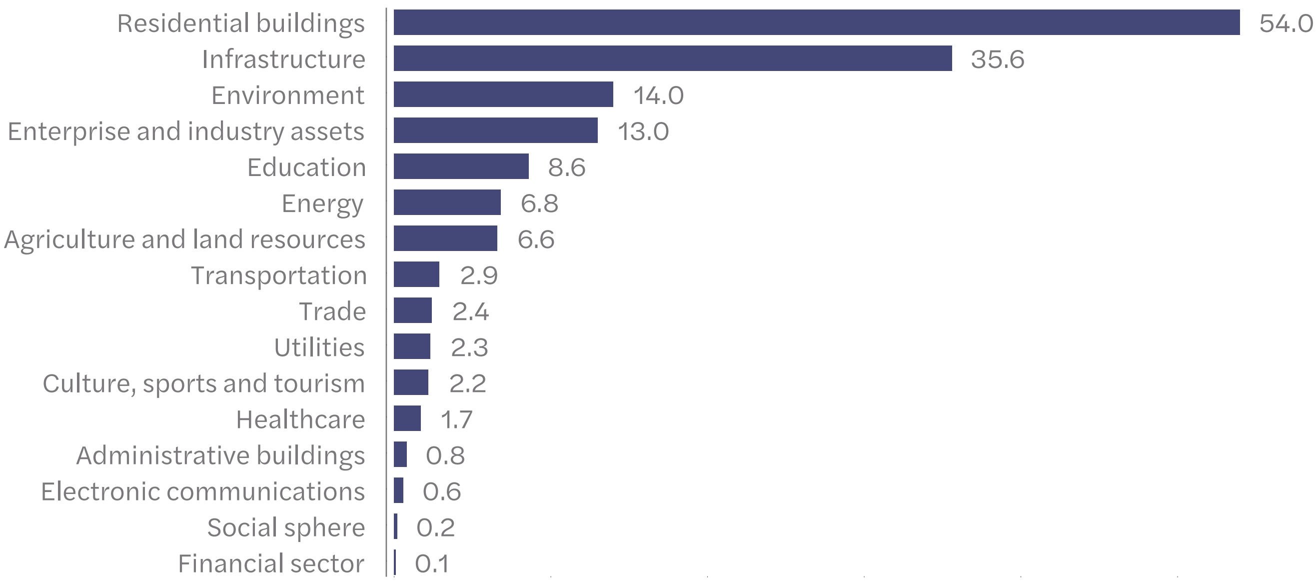
Ukraine's geographical location gives it a competitive edge and makes it a commercial corridor between Asia and Europe. Infrastructure will be needed to restart the economy – for instance for the energy sector. Electricity production will have to be fully relaunched in the country to sustain the reconstruction of infrastructure and other sectors. Hence, after prioritising critical infrastructure (housing, schools and hospitals) to safeguard the livelihood of its citizens, it is of paramount importance to build new transport and energy infrastructure. To illustrate, Ukrainian port infrastructure is extremely important in the context of Ukrainian agricultural exports. For example, 90% of all agricultural products and 97% of grains are exported through seaports.

In addition, Ukraine has great potential to increase its share in renewables in the reconstruction phase, which stands today at ~5% of energy production. New energy sources (wind, biogas, biomethane and green hydrogen) and energy-related infrastructure will be vital to rebuild and make Ukraine energy independent. For instance, the southern part of the country is favourable for the development of solar facilities, and the amount of open space in the region will also allow the presence of wind farms in different land and coastal areas. In early March 2023, Ukrainian energy company DTEK announced that a dozen turbines had been built and brought online in southern Ukraine to support the needs of its citizens and, more so, the country in its bid to remake its energy economy and become a clean power hub for Europe[6]. According to government agencies, more than US$130 billion is needed to rebuild Ukraine's energy infrastructure and make the country energy independent. Also, reconstruction presents the opportunity to eliminate any deteriorating infrastructure, if not already demolished due to the war.

6 https://dtek.com/en/ (news).

Estimated direct losses from damage to physical infrastructure from the Russian invasion of Ukraine as of December 2022, by type (US$ billion)

Estimated damage value (US$ bn)



Source: Statista

Ukraine shaken and reshaped for the future

An agricultural powerhouse

Both Ukraine and Russia are key producers and exporters of crops globally. For example, together these countries account for over a quarter of the global wheat trade.

Agriculture is an integral component of Ukraine's economy. Due to the country's favourable climatic conditions, geographic location and topography, and the availability of fertile land, Ukraine is the world's largest producer and a key exporter of wheat, barley, rapeseed, maize and vegetable oil. The sector accounts for approximately 11%, combined with forestry and fishing[7]. The sector employs 14% of Ukraine's population, and in 2021, the sector accounted for US$27.8 billion of exports (41% of the country's US$68 billion in overall exports).

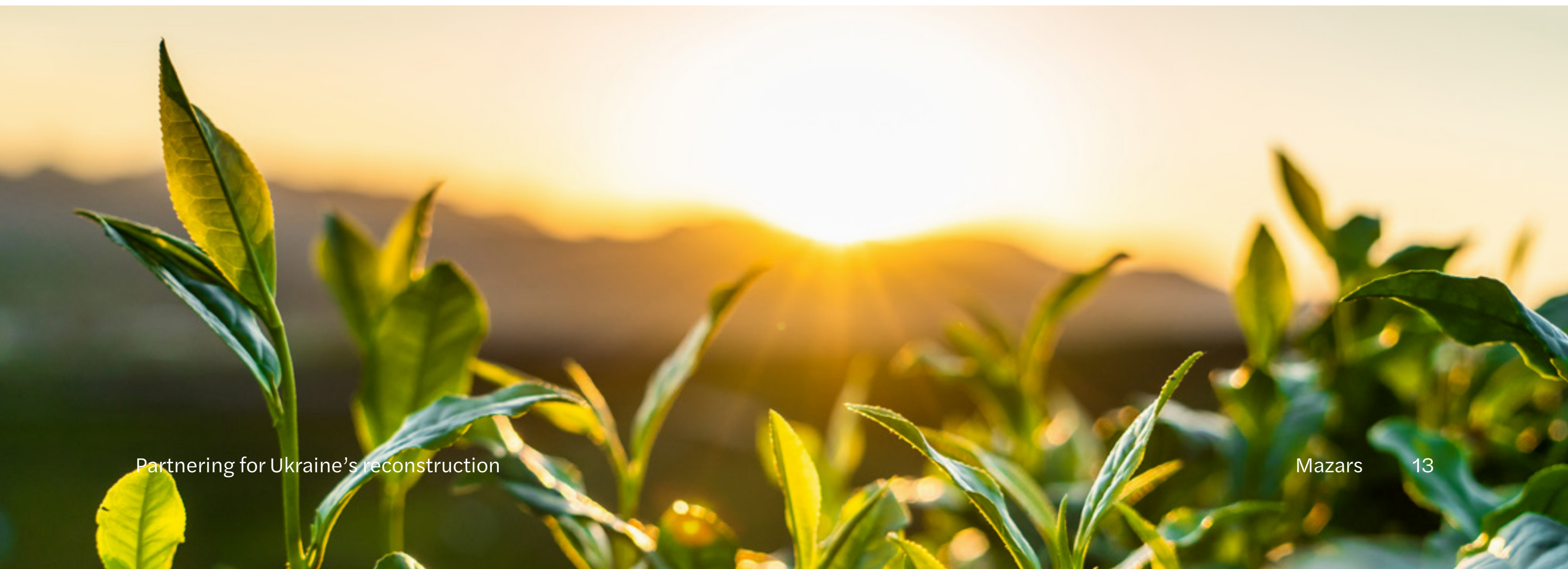
Unfortunately, the war has undermined Ukraine's capacity to harvest and export arable crops (more than 55% of Ukraine's land area is arable) globally. Many of the areas of the country that offer conditions to produce crops, where the agricultural sector is present, are currently under Russian occupation. The reduction in capacity from Ukraine and Russia, coupled with rising energy and fertiliser prices, has significantly increased international food prices, threatening food security. The collapse of the agricultural industry has the potential to harm not just the Ukrainian economy but also the well-being of other nations that rely on agricultural exports from Ukraine.

According to recent estimates, direct losses from damage to Ukraine's agricultural economy amount to approximately US$8.7 billion[8], and it will take more than US$17 trillion to rebuild and restart agriculture. The losses are comprised of agricultural machinery and equipment, grain storages, livestock (bee colonies, goats and sheep, cattle, pigs and poultry), perennial crops, production factors (e.g., fuel, fertilisers and plant protection products) and manufactured products (destroyed or stolen cereals and oilseeds).

The agricultural sector is a crucial part of Ukraine's economy, and future-proofing the industry will require agribusinesses to embrace the latest technologies (e.g., precision agriculture). Such technological innovations will enable faster post-war growth of the sector, with significant potential for the revitalisation of the country's exports. First and foremost, the government will need to incentivise industry stakeholders with favourable lending programmes (e.g., large grants or loans with grace periods and low interest rates, collateralised with equipment) to support the full restoration of the sector in a post-war environment. This process is already underway with a preferential lending programme launched by the government to help farmers, offering loans with favourable interest rates. In addition, in the short to medium term, Ukraine will need logistical support to enable agricultural exports. Moreover, international trade in food and fertiliser should remain open to enable the necessary trade adjustments and to prevent the war from amplifying global food insecurity. Secondly, measures that aim to increase the supply of or reduce the demand for agricultural products should also be considered, but these are more effective in the medium term.

7 State Statistics Services of Ukraine.

8 Kyiv School of Economics' report on damages: https://kse.ua/russia-will-pay/).

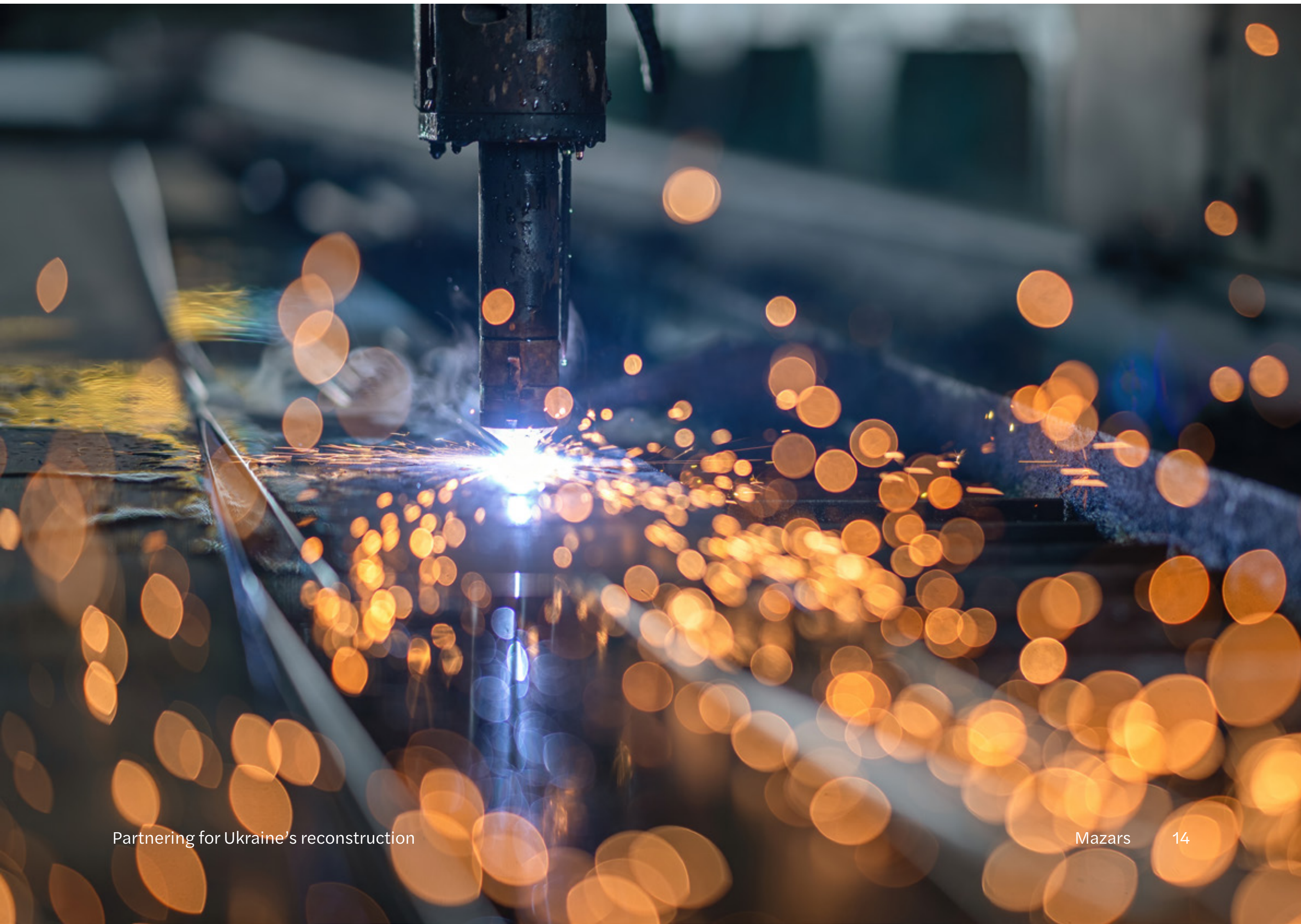


Ukraine shaken and reshaped for the future

Manufacturing

During the first half of 2021, manufacturing accounted for 11.7% of Ukraine's GDP and manufacturing output was US$20.61 billion, representing a 30.3% increase from 2020. Due to its geographical location close to European and Middle Eastern markets, global brands such as IKEA, Heinz, Unilever, Nestlé SA and Coca-Cola were attracted to Ukraine. The government also provided incentives for potential investment in the Ukrainian manufacturing sector. However, all this was disrupted by the outbreak of the war as many of these companies ceased operations in Ukraine.

According to government agencies, anything from US$15-75 billion will be needed to rebuild Ukraine's manufacturing sector. To rebuild the manufacturing sector, additional reforms, financial incentives and regimes beyond those that already exist will be needed to attract foreign investment into Ukraine. Alongside this, demonstrating meaningful rule of law progress (tax, customs, policy and transparency of rules between state and private enterprises), coupled with the reconstruction of effective and functioning logistics, will be essential. To date, the Ukrainian government's investment promotion office, UkraineInvest, has started making strides in this realm.



A watershed moment for Ukraine – tapping its potential reconstruction

Despite little sign of the war ending, Ukraine's government has already undertaken steps to reform and rebuild the country, exploring its untapped potential as it lays the ground for reconstruction.

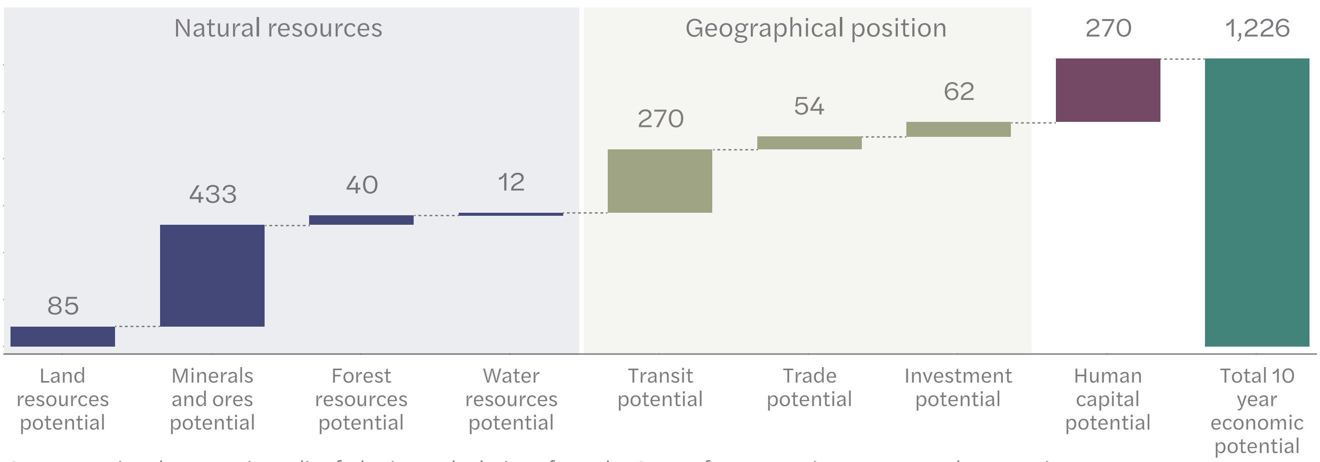
Prior to the war, the government was making significant reforms to the country's economy and institutions. Moreover, Ukraine's economic growth and untapped potential were evident, with steady progress towards expanding its economic cooperation and economic reforms in an effort to modernise the country. Since 2014, Ukraine has signed free trade agreements with Canada, Turkey and Israel, and an association agreement with the EU aimed at fostering a close relationship between Ukraine and the EU block on a wide range of topics. In June 2022, the EU Parliament adopted a resolution granting Ukraine candidate status for EU membership.

Successful regulatory reforms aimed to ease state control of, and expand the level of economic freedoms for, businesses in Ukraine. As recently as early March 2023, the government went a step further, abolishing certain outdated instruments[9]. Ukraine's first Deputy Prime Minister and Minister of Economy of Ukraine, Yuliia Svyrydenko, noted "today there are many valid but outdated instruments in the regulatory field ... ultimately, they simply have no practical value today, are not used, or are used to a very limited extent. We will gradually abolish all such instruments that only clog the regulatory field."

In 2020, land reforms further liberalised the land market. In addition, successful privatisation efforts over the past five-plus years have seen more than UAH11 billion transferred to the state budget. In line with this, since 2016 the government has sought to embed transparency in public procurement by digitising its system, saving the state approximately US$255 million in 2021. Digitisation expanded across other public services via the Diia platform, taking more than 70 public services online, and, as of 2022, more than 18 million people had used these services. More importantly, the government built the institutional capacity of the National Bank of Ukraine to accelerate financial sector transformation. Focus areas have included currency liberalisation, floating exchange rates, inflation targeting and stabilisation of the banking sector.

Ukraine's unrealised potential

Unrealised potential of Ukraine, 10 year estimate (US$ bn)



Source: National Economic Audit of Ukraine, calculations from the Centre for Economic Recovery and EasyBusiness, Ukraine Recovery Conference, Strategia Partners

9 https://www.kmu.gov.ua/en/news/derehuliatsiia-uriad-skasuvav-zastarili-instrumenty.

A watershed moment for Ukraine – tapping its potential reconstruction

On a final note, Ukraine's potential integration into the EU could prove difficult in terms of reorienting the country's development strategy, adapting legal and tax systems to union standards and infrastructural changes and requirements related to the socio-cultural sphere. But it could also lead to a new opportunity for Ukraine to thrive in a transparent and sustainable manner.

Undoubtedly, the reconstruction process in Ukraine will require significant financing from international donors and private sector partners. At the same time, the process of Ukraine's reconstruction and development also implies a deeper integration of the country into the international community and a reorientation and participation in international alliances and organisations. Mazars has identified three imperatives to consider as stakeholders get ready to seize pertinent reconstruction opportunities. These imperatives are as follows:

1 **Economics:** Long-term reconstruction will require access to vast resources, coupled with governance	Significant funding, investment flows and capital deployment will shape and finance the reconstruction in the decades to come. Blending private and public sources of capital; co-investing reduces risks and improves investment efficiency.
2 **Collaboration:** A collaborative approach will be a winning strategy to drive transformative change	Embedding new strategic and collaborative alliances and approaches can lead to a competitive advantage and allow for synergetic benefits. Also, collaboration between public and private ecosystems can foster innovative solutions, sahred risks and even capital.
3 **Digitisation:** A digital transformation will be key to a sustainable and well-functioning society	Harnessing transformative, new and green technologies will modernise Ukraine's economy and enable the process of reconstruction. Also, access to the right talent and finance will be essential to transform Ukraine's digital infrastructure and economy.

A watershed moment for Ukraine – tapping its potential reconstruction

Economics

Ukraine's reconstruction will require massive global investment, and, according to a joint assessment in March 2023 (released by the Government of Ukraine, the World Bank Group, the European Commission and the United Nations), the estimated cost of reconstruction and recovery in Ukraine has grown to US$411 billion. Securing long-term funding on concessional terms will not only require access to vast diplomatic and technical resources but also depend on the outcome of the war and levels of commitment from international donors and investors. Put simply, a hard stop to the war and a guarantee of security will shore up support from investors. Furthermore, strengthening the rule of law and effective management of financial resources will require rigorous governance mechanisms, effective public-private partnerships, active investor management and regulatory engagement.

Since the Russian invasion, Ukraine has received tremendous support from the international community. Financial assistance from countries around the world continues to flow into Ukraine, and the biggest donors to the Ukrainian economy (military, humanitarian and financial aid) have been the United States, Germany, the United Kingdom, Poland and France. Many countries have already declared their willingness to participate in the post-war reconstruction of Ukraine. In January 2023, a multi-agency donor coordination platform was launched to support Ukraine's recovery and reconstruction process. The platform aims to foster close coordination among international donors and financial organisations and to ensure coherent, transparent and accountable support. Moreover, it should ensure proper coordination among key players providing short-term and long-term financial support to reconstruct Ukraine. The platform should help to address the gap between Ukraine's needs and resources, following the outcomes of conferences held in Lugano, Berlin and Paris.

At the same time, once reconstruction efforts start, Development Financial Institutions (DFIs) are likely to be the first movers to finance Ukraine's reconstruction efforts to shore up support and reduce the risk for commercial banks and private investors to gradually start investing in the country, with an eventual push towards blended public-private sources of capital.

Prioritising where the funding will be initially spent will be essential to restarting the economy. Ukraine has set out a plan for investment from donor countries (for individual regions), but reconstruction may be more financially difficult than expected. For instance, such a rebuilding process may become a multi-decade project, considering the level of damage in Ukraine and based on the comparison with WWII. Hence, by strategically prioritising sectors with the greatest potential, Ukraine can yield innovation and achieve growth. In view of this, it will be interesting to see which critical sectors and activities will be prioritised to entice donors.

Financial donors

- **Development Financial Institutions** (DFIs) will be first actors to scale up private sector finance
- **Commercial banks and PE firms** will gradually invest once guarantees and reduced risk are in place
- Eventually, there will be a push towards **blended public-private sources** of capital

Financing options, structures and stakeholders

Likely forms of finance proposed:

- **Concessional** instruments (low-interest, long-tenor project loans or lines of credit)
- **Blended** between DFIs and commercial banks
- **De-risked** through significant equity investments and risk mitigators (e.g. guarantees, first-loss protection and grant-based capacity-building programmes)

Likely structures and stakeholders:

- **PPPs between Ukraine, DFIs and financial institutions**
- **Project finance:** Tailoring life cycle concessional finance to de-risk infrastructure projects
- **Investment funds:** Structuring anchor investments in reconstruction with equity/ debt funds

A watershed moment for Ukraine – tapping its potential reconstruction

Collaboration

Collaboration will be a winning strategy to drive transformative change. An important component of collaboration is to build transparent and effective partnerships that will move forward. This will be essential to eradicate corruption in Ukraine. New and strategic collaborative approaches will be critical to accelerate recovery and reconstruction efforts. Working and partnering with multiple international stakeholders across various ecosystems – whether government, private sector, civil or academic – will ensure the economic and social licence to operate in Ukraine's post-war environment.

Such collaboration must be effectively executed, relying on the best enablers that the market can offer to ensure robust implementation within agreed timelines. Reconstruction will be complex, and no single government entity or private sector company will be able to solve Ukraine's reconstruction dilemma. Collaboration, alliances and partnerships across public and private stakeholders will be key to unlocking opportunities and fostering transparency and innovation for Ukraine. More importantly, capability sharing and knowledge transfer on technical, sectoral expertise and government reforms can drive innovation and pioneer new techniques, technologies and business models across various industries.

Digitisation

Ukraine has a strong digital sector, and its reputation as a digital innovator is recognised globally. Many top companies, such as Google, Microsoft and Boeing, have established subsidiaries in the country. Ukraine's digital and IT sector saw rapid growth pre-war. In 2021, IT exports grew 36% year-on-year to total US$6.8 billion, representing 10% of the country's total exports. Meanwhile, the number of Ukrainians employed in the IT industry increased from 200,000 to 250,000 across start-ups, SMEs and large firms. In 2022, the ITC sector provided export earnings of US$7.34 billion (up 5.8% on the previous year). However, the war challenged the sector, including the destruction of digital infrastructure and cyberattacks, to name just two.

Nonetheless, the sector and its evolving ecosystem will be a key driver for reconstruction and modernisation. **Digitisation** is essential to a well-functioning society, enabling democratic participation and education. But, more importantly, it can serve as a **key enabler, innovating critical sectors** (i.e., energy, banking, finance and agriculture), **as well as enabling transparency and accountability** for Ukraine's government and private businesses.

Hence, harnessing new and transformative technologies, practices and tools will help in the acceleration and evolution of Ukraine's anti-corruption architecture during reconstruction and beyond. As an example, having the right digital systems in place with qualified personnel can create opportunities for businesses around the world to participate in procurement tenders for the reconstruction of Ukraine.

In summary, in the context of the reconstruction of its post-war economy and environment, Ukraine will require a new strategy and approach from its leaders and foreign partners, as well as substantial capital and accountability mechanisms. For many years, this rebuilding process will be a priority.

Our commitment to Ukraine

Mazars is a leading international audit, tax and advisory firm, aspiring to build the economic foundations of a fair and prosperous world. Operating as a united partnership, we work as one integrated team, leveraging expertise, scale and cultural understanding to deliver exceptional and tailored services around the world.

Mazars, as a steadfast and reliable partner in Ukraine's resilience and reconstruction, stayed in Ukraine from the very beginning of the war and actively contributes to the country's economic development and rebuilding efforts. Firmly rooted in its values, Mazars places a strong emphasis on the well-being and development of its own employees in Ukraine and supports them in the challenges they face currently. With its unwavering commitment to integrity and professionalism, Mazars consistently strives to contribute to Ukraine's growth by providing reliable financial services, fostering transparent business practices, and offering strategic guidance to organizations navigating the complex landscape. By combining its global expertise with a deep understanding of Ukraine's unique challenges, Mazars demonstrates its unwavering dedication to supporting Ukraine's long-term success and serving as a reliable ally in the country's ongoing reconstruction journey.

To find out more about Mazars in Ukraine visit our website: www.mazars.ua

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 95 countries and territories around the world, we draw on the expertise of more than 47,000 professionals – 30,000+ in Mazars' integrated partnership and 17,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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