

# Rebuilding Ukraine through private investment: Economic background, investment climate and reform proposals

by Garry Poluschkin, German Economic Team



23 April 2024 // 10:30 a.m. – 2:25 p.m.

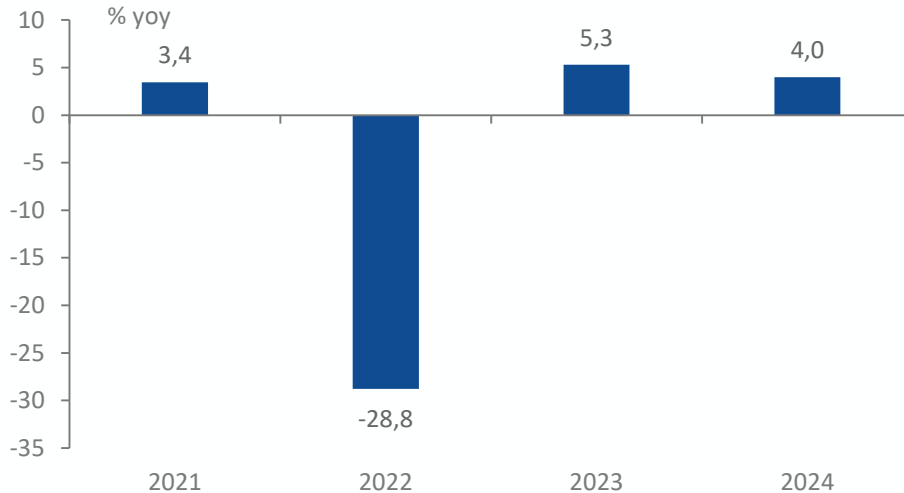
**Rebuilding Ukraine: new opportunities through digital transformation**

# Content

1. Economic background
2. Factors for stimulating private investment
  1. Private aid and guarantees
  2. Investment climate reforms
  3. EU accession and the rule of law
3. Conclusion and outlook

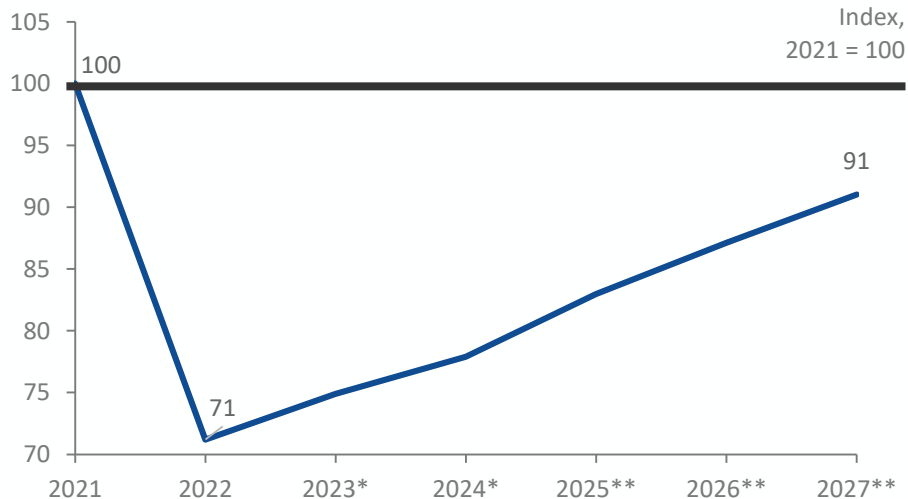
# 1. Economic background (1/2)

## Real GDP growth



Sources: Ukrstat, \*IER/GET forecast

## Medium-term forecast vs. pre-war level



Sources: Ukrstat, \*IER/GET forecast, \*\*IMF forecast

## 2023

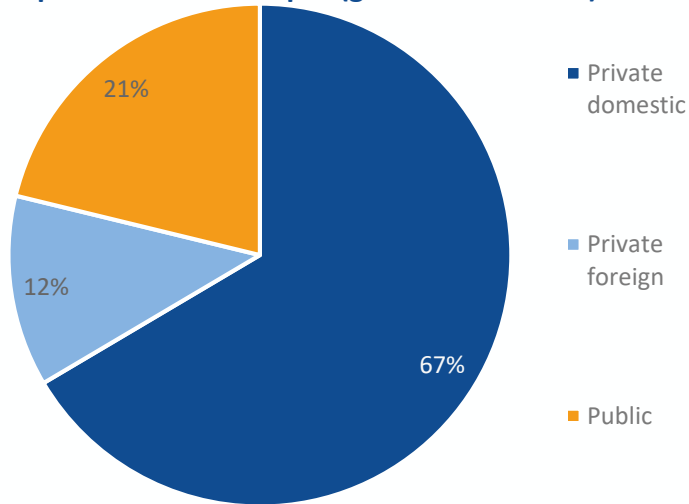
- » Moderate growth in 2023 after massive decline in 2022

## 2024

- » Economy will continue to grow moderately in 2024 (4.0%)
- » Domestic demand on the rise, but severely restricted by lack of liquidity and high migration
- » New sea corridor supports export development
- » Damages to energy infrastructure limit growth
- No recovery to pre-war level, even in the longer term
- Large uncertainty due to the war

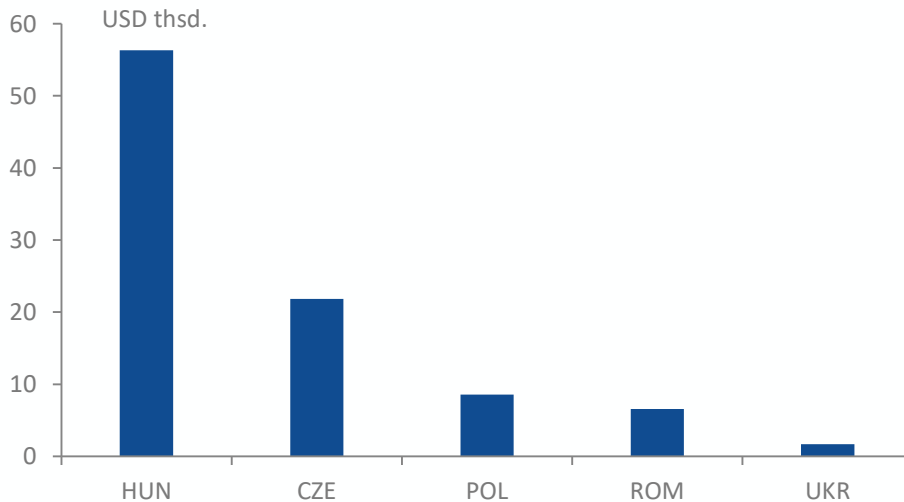
# 1. Economic background (2/2)

Private vs public share of output (gross value added)



Sources: Ukrstat, 2020

FDI per capita: Comparison with peers

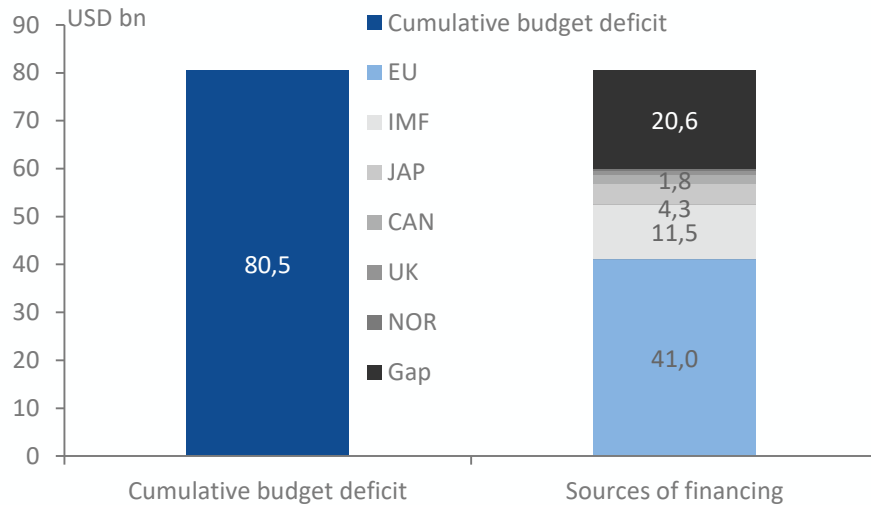


Sources: IMF, 2021

- » Before the full-scale war, Ukraine's economy was dominated by private sector business activities
- » However, domestic rather than foreign
- » Economic literature: FDI contributes to economic productivity gains lifting the growth trajectory.
- » FDI per capita: 13X larger in CZE, 33X in HUN, 5X in POL than in UKR in 2021
- » FDI cornerstone for modernising Ukraine's economy (e.g. Becker et al. 2022)
- » FDI attractiveness thereby depends on critical factors in UKR
  - Aid and security against war risks
  - Investment climate reforms
  - EU accession and rule of law

## 2.1. Public aid and guarantees

Estimated fiscal aid and gap 2024 to 2027



Sources: IMF Mar-24, Ministry of Finance of Ukraine Apr-24

Selected guarantee instruments for Ukraine

Instrument	Party	Status, volume
UKR Facility Pillar II by the EU	Financing in UKR: SMEs and green transformation → Economic risks	In preparation, volume: EUR 7.8 bn
World Bank MIGA	Guarantees for FDI and trade finance → Political incl. war risks	Guaranteed volume: EUR 0.14 bn from Feb-22
Federal Investment guarantees	Guarantees for GER FDI → Political incl. war risks	Guaranteed volume: EUR 55 m 2023
UKR Concept for insuring investment	Any investment in UKR, esp. domestic one → War damage risks	In preparation

Sources: Federal Ministry for Economic Affairs and Climate Action, World Bank, EU

- » Investment requires security against external risks → aid and guarantees
- » Financial aid to keep the state budget afloat
  - EU facility, IMF programme, bilateral support
  - But: gap of USD 21 bn without US
- » Investment guarantees
  - While usually the insurance scheme is closed for new applications if (war) risks materialise, GER and partners have kept it explicitly open/established for UKR
  - Economic risks: UKR facility pillar II by the EU of EUR 7.8 bn
  - War risks: GER Federal investment guarantees:
    - 22 approved in 2023 (1st place)
    - Volume 2023: EUR 55 million (5<sup>th</sup>)
  - UKR is preparing a domestic instrument

## 2.2. Investment climate reforms (1/2)

- » Joint work by the German Economic Team and German Ukrainian Chamber of Commerce (AHK Ukraine)
- » Bottom-up methodology
  - Elaboration of structured questionnaire for each working group of the Chamber
  - Working groups provide a set of policy recommendations
  - Review and verification of these recommendations to ensure their alignment with a broader reform trajectory as well as Ukraine's existing contractual obligations
- » Incorporate smaller reforms that can be conducted during war
  
- Preparation of 30 policy proposals
- Out of them, generation of a "Top 10" priority list of "quick wins"
  1. Directly linked to recovery/reconstruction
  2. Removing unnecessary bureaucratic and administrative burdens to reduce transaction costs
  3. Easy-to-implement measures towards creating a level, competitive playing field not discriminating against new, foreign or private companies

## 2.2. Investment climate reforms (2/2)



Law and human resources



Tax and accounting

Horizontal policy area



Banking and financial services



Energy and green transition



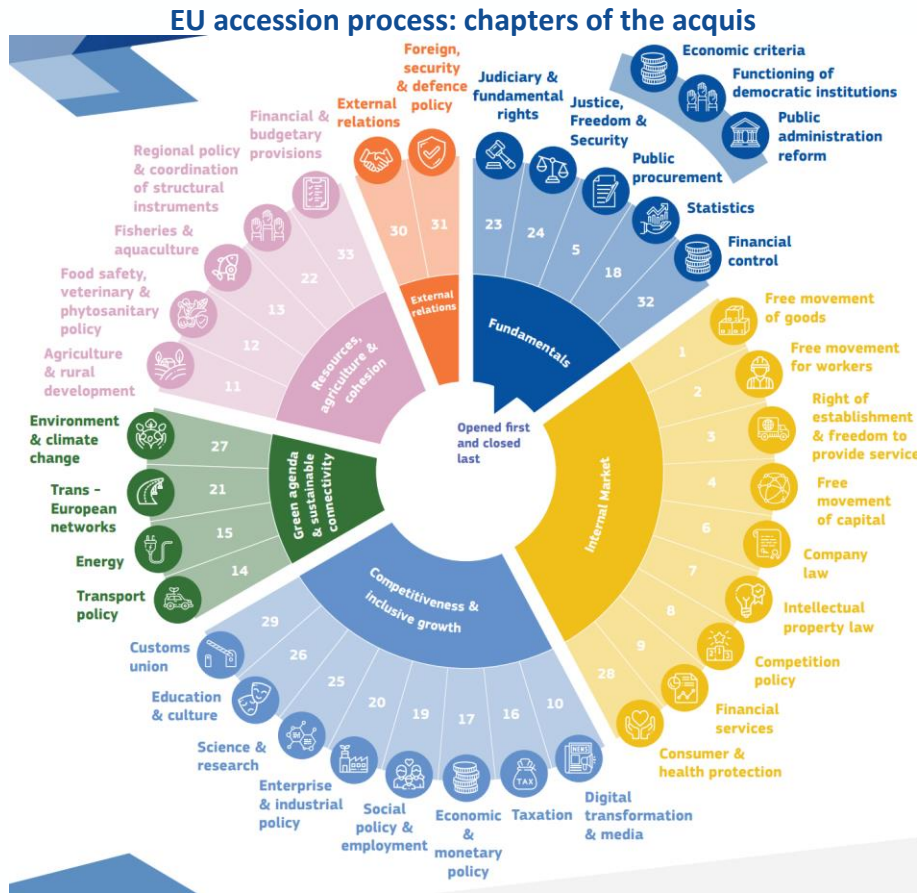
Construction and energy efficiency

Others: Agri-food and IT

Vertical (sectoral) policy area

In total: 30 proposals

## 2.3. EU accession and the rule of law



Sources: European Commission, [EU accession process step by step - EU NEIGHBOURS east](#)

### EU accession

- » EU accession was strong anchor for FDI attraction in POL, HUN, CZE as investors anticipated the economic integration into the single market
- » Integration of Instrument for Pre-Accession with EU best practise
- » Gradual harmonisation with the EU acquis

### Rule of law

- » Improvements since 2013,
- » Level of law preparedness for EU accession (Emerson & Blockmans, 2023 [Link](#)):
  - Similar to GEO, BIH, SRB,
  - Better than MDA, KOS
  - Worse than MNE, NMK, ALB
- » Membership negotiations are opened and closed with “fundamentals” → rule of law



# 3. Conclusion and outlook

- » Investment attraction is very challenging during the war
- » Public commitment by direct aid and guarantees are decisive for private investment
- » Ukraine's reform progress is evenly decisive
- » To generate quick benefits for investment in Ukraine, the top 10 reform proposals should be implemented with highest priority
- » Reforms towards EU accession and the rule of law will go hand in hand
  - Accession and integration into Single Market with ca. 450 m consumers
  - Experience of POL, HUN, CZE illustrate that even anticipation of future membership is FDI driver
  - Reforms in the area of the rule of law are necessary condition for membership
- » Improved business and investment climate will bring Ukraine on a higher economic growth path

# About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action the German Economic Team (GET) advises the governments of Ukraine Belarus\* Moldova Kosovo Armenia Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*\*Advisory activities in Belarus are currently suspended.*

## CONTACT

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Our publications are available under

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# Annex

## Top 10 “Quick Wins”

Category 1	Category 2	Category 3
Construction: Defining a unified “Build Back Better” framework	Tax: Adjusting the threshold per counterpart in the transfer pricing (TP) report	Financial: Recognition and enforceability of ISDA master agreements for cash-settled commodity markets
Construction: Updating modular shelter construction standards	Tax: Providing SAF-t files to tax authorities	Financial: Access to financing under 5-7-9 loan subsidy programme
	Legal: Waiving work permit requirement for foreign directors	Energy: Prolongation of contracts validity concerning grid connection and technical requirements for the connection of renewable energy objects to the grid
	Legal: Reducing HR documentation	Energy: Recognition and enforceability of EFET master agreements on physical trade in power and gas

Source: GET, 2024, [Link](#), own illustration

