

PRESS RELEASE

Retention period: 25 June 2020, 2.00 pm CET

## Ukraine: reconstruction of Donbas will cost at least USD 21.7 billion or 16% of Ukraine's GDP

*A new wiiw study provides the first comprehensive calculation of the costs of the conflict and outlines a recovery plan for the region.*

The wiiw study estimates the **minimum costs of reconstruction at USD 21.7 billion**. These costs include damage to physical capital (44%), human capital expenditures (40%), and mitigation of environmental threats (16%). The **direct damage caused by violent actions is not the most significant cost driver** in the long run. **42%** of the restoration costs can be attributed to the **disruption of business continuity and the degradation of state capacity** that accumulated over years of inaction.

The estimated reconstruction costs are too great to be covered by the Ukrainian budget alone. They equal more than 40% of the annual revenues of the Ukraine's state budget or 16 percent of the GDP in 2018. **The authors therefore recommend various sources of finance, including both court-ordered compensations and voluntary contributions by Russia.** However, **international finance appears to be the most viable** option conditional on stability of financial markets.

Although the study assesses that the COVID-induced global recession will increase the reconstruction costs, it highlights the potential positive effects in the peace settlement process. With the burden of the COVID-induced economic crisis growing, **the opportunity costs of the conflict and support of the satellite states will increase for the Russian elites.** Therefore, a prolonged recession will increase the likelihood that the Kremlin will adopt more accommodative foreign policy in the coming years.

Against this background, the **wiiw study proposes a reconstruction plan for the post-war period.** First, the Ukrainian state should ensure personal security of the local population in Donbas by **demining the region and eliminating environmental threats.** This will bring immediate results and boost the positive sentiment of the peace process.

Second, the Ukrainian government should address the causes of the ongoing humanitarian crisis. This would require a massive state investment in **rebuilding of the critical infrastructure** and a **large-scale reallocation program** for displaced population **supported by the cash assistance program.**

Third, the Ukrainian state should lay a sound foundation for the sustainable long-term economic growth in the region. A **clear framework for resolving the property rights disputes** in the post-war period and **preferential investment schemes** are critical to boost the local domestic and foreign investment.

Finally, the Ukrainian government should achieve the post-war resilience by assuring the legitimacy of the peace process. It is necessary to **support administrative capacities and political engagement in Certain Areas of the Donbas and Lugansk Regions (CADLRs)** to assure that the local population has effective peaceful means in the Ukrainian political process to address local economic and political needs.

While the coordination of a reconstruction program should be left to the Ukrainian authorities to assure responsibility and process ownership, the authors recommend to **draw upon existing institutional arrangements of technical assistance to Ukraine** – such as the Strategic Advisory Group for Supporting Ukrainian Reform (SAGSUR) or the Ukraine Reform Architecture (URA) programme, – and to establish a **small high-level expert supervisory body** to audit the reform implementation process.

### **Presentation**

**On Thursday, 25 June 2020, 2.00 pm (CEST)**, the study will be presented and discussed with an expert panel at an online event.

Link: <https://wiiw.ac.at/e-477.html>

### **Download**

*'Economic Challenges and Costs of Reintegrating the Donbas Region in Ukraine'*

by Peter Havlik, Artem Kochnev and Olga Pindyuk, wiiw Research Report No. 447, June 2020

Link: <https://wiiw.ac.at/p-5351.html>

### **Contacts**

Peter Havlik, Author and wiiw Senior Research Associate ([havlik@wiiw.ac.at](mailto:havlik@wiiw.ac.at))

Artem Kochnev, Author and PhD candidate, Johannes Kepler University ([artem.kochnev@hotmail.com](mailto:artem.kochnev@hotmail.com))

Olga Pindyuk, Author and wiiw Economist ([pindyuk@wiiw.ac.at](mailto:pindyuk@wiiw.ac.at))