



‘BIG ON BOARD’

Mobilising big business to rebuild Ukraine

by
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Substantial private capital, as well as the participation of more risk-averse stakeholders, will be essential for Ukraine’s recovery and reconstruction. Global investment is increasingly concentrated in developed economies and a limited number of sectors, particularly the digital economy, reflecting growing competition for scarce capital. At the same time, international project finance continues to decline [according to UN Trade and Development \(UNCTAD\)](#). In addition to helping Ukraine create an attractive environment for doing business, the EU should strengthen incentives for private investment. This will require a combination of domestic measures – expenditure-based incentives in particular – and more effective external de-risking instruments. A new ‘Big on Board’ initiative could help focus the efforts of EU stakeholders towards achieving these goals.

Idea

Mobilising large-scale private investment and attracting major companies is one of the biggest challenges in post-conflict reconstruction and international development. In Ukraine, the challenge is compounded by a range of factors: security and political risks, including corruption and still inadequate anti-corruption safeguards; the prospect of future instability; labour shortages; and the fact that reconstruction is taking place across a vast territory, with regions facing different levels of risk and different reconstruction timelines. However, substantial private capital and the implementation capacity of large foreign companies will be indispensable to the success of the reconstruction effort. They will be essential for ensuring sustainable recovery, building a modern industrial base, and integrating Ukraine more closely into global value chains.

The allocation and coordination challenges associated with development finance can be addressed through an effective system for tracking and managing resources. But a well-designed incentive structure needs to be in place to nudge risk-averse stakeholders to engage in rebuilding Ukraine’s public services, especially in frontline regions like Kharkiv, Kherson or Odessa.

Impetus

To ensure sufficient flows of private capital, Ukraine will need both security – meeting institutional investors’ fiduciary requirements for ‘peacetime’ investment – and a sound business environment. However, the EU should also put in place targeted incentives to support the privatisation of local state-owned enterprises (SOEs) engaged in large public infrastructure projects and services, the governance of which needs to be strengthened, including through the Peace and Prosperity Compact. The EU should also encourage foreign companies capable of providing public services (such as utility companies) to enter the Ukrainian market.

The ‘Big on Board’ initiative can help by focusing on two priorities within the EU’s broader support for Ukraine’s reform, reconstruction and recovery.

First, together with other stakeholders such as the Organisation for Economic Co-operation and Development (OECD), the EU can assist Ukraine in developing a set of domestic incentives to attract foreign direct investment from advanced economies, once a sustained future ceasefire is in place, while ensuring adequate protection for critical sectors. These include expenditure-based incentives [proposed by the OECD](#) (rather than current tax-based incentives) such as accelerated depreciation, capital expenditure allowances, green transition investments (aligned with Ukraine’s EU accession track), research and development grants, investment tax credits, matching schemes and investment-based subsidies. At the same time, Ukraine’s investment promotion agency, UkraineInvest, should evolve into an entity that assists investors navigate licensing, tax registration and regulatory compliance more efficiently, thereby reducing barriers to investment.

Second, the EU should give greater priority to de-risking measures when designing its instruments of assistance to Ukraine under the next Multiannual Financial Framework (MFF). The lessons learned from post-conflict reconstruction efforts worldwide suggest placing particular emphasis on blended finance, guarantees and consultations with local stakeholders. They also highlight the need for technical assistance and reliable data to support security and political risk

assessment, due diligence, risk pricing and insurance for both loans and equity investments.

The aim should be not to eliminate risk. From an investor’s perspective, Ukraine will remain a high-risk territory for some time. Rather, the objective should be to reduce risk to a level that is acceptable both to investors willing to accept higher risks in return for potentially higher returns before the market fully stabilises – which may take years – and to more risk-averse providers of essential public services. These include utility companies, power generation companies, electricity, digital and communication network operators, heating and waste management providers, and major infrastructure construction firms. The EU could support these investors through tailored de-risking packages combining blended finance, first loss risk insurance, and instruments to lower borrowing costs.

Instruments

The EU can start implementing the ‘Big on Board’ initiative in three ways. First, following consultations with other international stakeholders, particularly donors and international financial institutions (IFIs), the EU could incorporate expenditure-based investment incentives into the next update of the Ukraine Plan or any subsequent framework setting out the conditions for the disbursement of EU aid. The current emphasis on tax breaks is likely to have limited impact and may face constraints imposed by the global minimum tax (GMT) regime. Secondly, the EU should upgrade the Ukraine Investment Framework (UIF), the second pillar of the Ukraine Facility and its main financing instrument for Ukraine, so that it can mobilise more public and private capital, particularly for major public infrastructure and service projects. Finally, the EU should offer technical assistance to help Ukraine implement the measures included in the Ukraine Plan. This should include putting in place conditions for (partial) privatisation of SOEs, and strengthening domestic investment incentives, including by transforming UkraineInvest into a one-stop shop for foreign investors. These new initiatives should be streamlined with parallel efforts by the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and other IFIs to maximise their impact. In particular,

the EBRD's wartime risk insurance scheme, the Recovery and Reconstruction Guarantee Facility, should be scaled up.