



Progressive Pathways for a Resilient (Re)construction of Ukraine: towards a New Social Contract

UKRAINE'S (POST)WAR RECOVERY

By Yuliya Yurchenko¹

In 2024 and looking ahead, Ukraine's challenges are overwhelming. When Russia invaded on February 24, 2022, Ukraine was already one of the poorest and most indebted countries in Europe, weathered by numerous economic crises, fiscal challenges in the domain of public services financing, and nearly 8 years of war with Russia and its proxies in Donbas and Crimea. The ongoing war strains state and municipal budgets, while dislocation of the labour force and infrastructure destruction (including water and energy), ecological contamination, landmines make economic and everyday activities a challenge. By February 2024 the total amount of documented damage to Ukraine's infrastructure was estimated at \$155 billion (at replacement cost). As the war is ongoing and some 18% of Ukraine is currently occupied it is hard to assess the full scale of damage sustained, that will only be known once the war is over; what is certain is that the reconstruction challenges are enormous, will require large-scale planning and investment, significant institutional reforms, and millions of varied-skilled workforce to carry out the recovery – from 4.6 to 8.5 million on currently absent workers

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² "Deep/strong sustainability" approach assumes "critical parts of the natural capital must be

will be needed for that effort. Ukrainians, many of who are displaced without and beyond Ukraine's borders, are famous for their resilience yet that too is a resource that requires a systematic and a regular sustainability and needs assessment and support.

A resilient economy?

Building a resilient deeply sustainable² – economically, socially, and environmentally – country requires a large-scale coordinated approach and constructive multi-stakeholder social dialogue. Many initiatives are already underway and many more are still to follow. In the FEPS funded Project titled "Progressive Paths to Rebuild Ukraine" we draw on existing plans, initiatives, and evidence to assess the state of the economy and society, identify strengths and vulnerabilities, survey trade unions for assessment of current and foreseeable needs in concrete sectors and collate 5 expert briefs for consolidated, progressive policy recommendations (on education, housing, healthcare, social policy, and impoverished motherhood) that would assure a resilient recovery, animate IDPs, deliver productive mobilisation of female workforce reserve, mend communities, and incentivise refugees to return. In this brief I present a summary of some of the key findings ahead of the full report publication and launch later in 2024.

Public investment and infrastructure ownership, full deployment of state funded public services and scaffolding of labour in their private and public economic initiatives

preserved as to guarantee present and future human wellbeing", that many of those are not replaceable and have value in and of themselves, not least for our and our ecosystems' ability to survive on the planet (see Buriti, R. (2019). "Deep" or "Strong" Sustainability. In: Leal Filho, W. (eds) Encyclopedia of Sustainability in Higher Education. Springer, Cham. https://doi.org/10.1007/978-3-319-63951-2_503-1).

instead of neoliberalism amidst the war are key elements for the Recovery's success. These are the lessons the world learned from the legacy of two world wars the destruction by which was remedied through government spending on infrastructure, education, welfare state, public services, housing programmes, business subsidies, R&D, and facilitation of trade. These are also recommendations corroborated by contemporary economic research of İlkkaracan and Kim (2019)³, Onaran and Oyvatt (2023)⁴, and Onaran and Gushanski (2018)⁵. They show that public spending and employment generation in early childhood care, education, health, and long-term care "pay for themselves" (in short, let alone long run), tackle inequalities, including gender, by drawing them into paid workforce and indirectly, by producing social security and opportunities for all households. For Ukraine, recovery that reflects EU membership aspirations and decarbonisation commitments calls for green and low-carbon job creation i.e. care economy, arts, education, environmental preservation and regeneration, sustainability R&D. These can be spearheaded through faster integration of Ukraine into the European Green Deal initiatives and NextGenerationEU Programme. A just transition and energy democracy are crucial for economic self-sufficiency and reduced import dependence in key sectors. It may look something like a post-Keynesian vision of state-led domestic investment and expansionary fiscal policy, with Ukraine's local enterprises having priority over their foreign rivals. Secure and fulfilling jobs, safe working conditions, and decent wage guarantees are

³ İlkkaracan, İ., & Kim, K. 2019. The employment generation impact of meeting SDG targets in early childhood care, education, health, and long-term care in 45 countries, Geneva, ILO.
https://www.ilo.org/gender/informationresources/Publications/WCMS_732794/lang--en/index.htm

⁴ Onaran, O. and Oyvatt, Cem (2023) "The employment effects of public spending in infrastructure, the care economy and the green economy: The case of emerging economies". At:

key for Ukrainians to feel part of the recovery effort and for those who fled to have somewhere and something to return to - some 6.5 million of them without who the most sophisticated reconstruction plans will be just that, plans. Moreover, to achieve the Ukrainian government 2032 GDP targets even with the Baseline Scenario 8.6 million additional workers compared to 2022 will be needed according to ILO and the Ministry for Social Policy of Ukraine; this means 37% increase in jobs compared to pre-war levels. The joint 2023 report states that "around 60 per cent of this additional employment would need to come from services, 27.4 per cent from industry, and 12.6 per cent from agriculture". Millions will require education, upskilling and reskilling, from basic skills training to advanced professional level. A radical integration of women into productive workforce is needed already with some 5% annual growth between 2023 and 2032 will be necessary according to ILO. Such unprecedented shift will require:

"strong policies aimed at enhancing employment prospects for women with children, such as affordable childcare and flexible working arrangements. It would also require effective incentives for women with lower educational levels to seek and secure employment, as this cohort of women has tended to participate less than more educated women in the Ukrainian labour market".

It will also require creative incentives for women who fled to the countries with

<https://www.ituc-csi.org/The-employment-effects-of-public-spending>

⁵ Onaran, Özlem and Guschanski, Alexander (2018), Reverting Inequality: a win-win for people and economic performance. Raising the Bar. pp. 45-54 (doi:

<https://fabians.org.uk/publication/raising-the-bar/>).



established lifelong education, care, and healthcare systems to return to Ukraine and for that to materialise, a lot is yet to be done.

In order to make these challenging horizons achievable and deeply sustainable state policy approach overhaul is needed to sustain the famous resilience of Ukrainians as that is too a finite resource. Approaches that prioritise the private sector and civil society with a strong emphasis on NGOs has numerous strengths but limitations too, especially at wartime. History of post-WWII rebuilding teaches that social dialogue, active role of trade unions, and the state as a coordinator and an investor (financed though sophisticated international mechanisms) is what resuscitates incapacitated economies particularly where private investment is shy to reach for heightened risks, low return prospects, or simply lack of interest or scale. Government spending to fully deploy, extend, and adapt the infrastructure and public services, reorientation of procurement to domestically produced goods e.g. Buy Ukrainian, and wage growth are crucial. Regular increases in living wage and average wage growth are needed that would not only reflect inflation but raise the living standard and boost domestic consumption capacity are some of the key measures that can help lift the economy out of hardship.

The “Progressive Paths” project presents an assessment of the state of affairs in Ukraine set against problems that predate the invasion with a look towards a deeply sustainable (re)construction. The Lugano principles and objectives are gauged against the means proposed to achieve them to highlight areas in need of further support and

sometimes an alteration of approach. The project continues analytical work, among other, collected in a book published by FEPS - Europe and the War in Ukraine (2023)⁶, an expert workshop on alternative paths to (post)war recovery and public event “Ukraine’s (post)war economy: Sustainability, international relations, and EU integration”⁷ held at the Centre for Political Economy, Governance, Finance and Accountability (PEGFA), University of Greenwich on June 20th, the eve of London URC 2023, and the public debate organised by FEPS and *Kalevi Sorsa Foundation* “From Russia’s aggression to progressive recovery of Ukraine: How to ensure Ukraine’s democratic future?” in late 2023,⁸ among other.

This analytical study complements existing scholarship by combined assessment of the macroeconomic environment, opportunities and limitations that exist in (post)war recovery approach presented in Lugano in 2022 and its evolution since. It is our understanding that in order for Lugano Principles to materialise, a socio-economic system of state funded public goods and services needs to be extended and sometimes newly deployed to scaffold people currently in Ukraine and incentivise those who fled to return in their contribution to the country’s recovery. State shrinkage, public services systemic underfunding since early 1990s, high prices on utilities and basic goods, low pensions and wages, lack of public housing – all contribute to omnipresent poverty, decline in health indicators, feminisation of poverty, and large-scale seasonal and out-migration for economic reasons. These problems predate the war yet have been radically exacerbated by it since 2014 and overwhelmingly so since

⁶ <https://feps-europe.eu/publication/europe-and-the-war-in-ukraine/>

⁷ <https://feps-europe.eu/event/ukraines-postwar-economy-sustainability-international-relations-and-eu-integration/>

⁸ <https://feps-europe.eu/event/from-russias-aggression-to-progressive-recovery-of-ukraine/>

February 2022, confounded by unprecedented internal displacement of people and disruption of productive processes. Seeking to inform remedial approaches in this complex situation while recognising the importance of inputs of the target demographics of the policies to be designed for said policies' aims to be achieved, the secondary evidence analysis in this project is enhanced by surveying trade unions' views on how to rebuild their corresponding sectors and by drawing on 5 specially contracted expert briefs pertaining to the domains of social policy, education, healthcare, housing, and impoverished motherhood. There are serious issues of price exclusion from access to foundational goods in Ukraine which make one question market-based approaches to recovery which will inevitably fail to secure access to such goods, let alone generate enough tax revenue for the state budget to be rebalanced even in the distant future. Thus, alternative arrangements shall be designed and lessons shall be drawn from the post-WWII rebuilding and from the successful elements of the Marshall Plan. The project shows and fiscal activism and wage-led growth – primarily in green and purple sectors (i.e. sustainability and care economy) - are needed combined with financial sector regulation and transparency, and functional autonomy and accountability of Ukraine's governing and administrative institutions; that recovery must be human-centred with rights and securities enshrined in the Constitution staying inviolable, including public ownership of natural resources and protection from privatisation of public services and key industries.

The expert briefs shed light onto pre-existing and new problems in five concrete (socio-)

⁹ Nataliia Lomonosova, sociologist and policy analyst, affiliated researcher at Cedos think tank, member of editorial board of Spilne (the 'Commons') journal.

economic domains to be transformed through needs-tailored policies.

Tasha Lomonosova⁹ elucidates that even before the full-scale invasion, Ukraine's social welfare system struggled with inadequate benefits, insufficient pensions, outdated social infrastructure, and uneven distribution of services across urban and rural areas. The war has exacerbated numerous challenges, leading to mass unemployment, increased poverty, inadequate housing, and heightened domestic violence, necessitating a comprehensive post-war reconstruction plan focused on stable employment, comprehensive housing policies, and an effective social safety net to ensure long-term stability and justice.

Olenka Gulenok¹⁰, basing on in-depth interviews and secondary evidence triangulation, explores the multifaceted new and pre-existing challenges faced by impoverished mothers in Ukraine, focusing on financial struggles, employment difficulties, housing issues, childcare responsibilities, and barriers to accessing humanitarian aid and mental health support. Research sheds light on the urgent need for targeted policy interventions that would address the compounded socio-economic and psychological impacts on this vulnerable demographic per se and as representative of problems experienced by mothers in Ukraine.

Pavlo Fedoriv¹¹ examines the matter of housing – policy, availability, affordability, and financing – based on his ongoing research rooted in understanding local needs nested in the realities of the sector across regions and communities. He shows the urgent need for a social housing programme and lays out the terrain of most urgent target demographic

¹⁰ Olenka Gulenok is a sociologist and an independent researcher; member of editorial board of Spilne (the 'Commons') journal.

¹¹ Pavlo Fedoriv is an urban geographer and a researcher at NGO New Housing Policy.



needs, explains how and what should be addressed through tailored policy.

Yulia Nazarenko¹² shows that Ukraine's education system had high enrolment and guaranteed access from kindergarten to higher education prior to 2022 invasion but faced inefficiencies, low spending per student, and poor alignment with labour market needs. The invasion caused significant damage to educational infrastructure, disrupted learning with a shift to remote and hybrid formats, and exacerbated pre-existing problems such as insufficient funding, lack of cadre and of practical training, inadequate shelter during air raids, and widespread power outages affecting both students and teachers. She stresses the need of the system overhaul to fit the current and foreseeable future requirements and the need of funding increase.

Olena Slobodian¹³ explicates the painful details of the Ukrainian healthcare system and the changes it has been undergoing since 2017, balancing negative aspects of austerity with positive changes to adapt and modernize. The system, financed by a residual principle, faces exacerbated challenges due to the Russian invasion, deepening dependence on international aid, leading to exclusion of grassroots movements and healthcare worker unions. Any reconstruction aid must involve various stakeholders, address exclusion dynamics, and prioritize long-term self-reliance alongside immediate needs, considering the dominance of efficiency and austerity narratives in policy-making.

Numerous issues are raised by trade union officials in the course of the survey on challenges they and their members face that often overlap with evidence documented in the expert briefs. Vital are the aspects of

security from direct impact of war which present a threat to workers' lives and force them into internal displacement or to flee abroad. There are numerous ways in which the war "immobilised" and disrupted the workforce beyond but not unconnected to death and displacement. Many saw a change in their household care structure which meant increased and altered allocation of responsibilities and compromised ability to partake in paid work as an effect. Many women were forced into lone parenthood in displacement and due to mobilisation of overwhelmingly men. This seriously undermines women's capacity to be active members of community and workforce and puts insurmountable strain on their mental and physical health. Uncertainty around availability of jobs, income levels, and access to public services that workers feel inside Ukraine undermines their ability to plan and erodes hopes for the future which impacts their (potential) willingness to leave or, those who left, to return.

Concerns and aspirations of Ukrainians must constitute the bedrock of the recovery planning incorporated via inclusive social dialogue as key for rebuilding effort. This understanding is reflected in the "whole of society" approach adopted for the upcoming Berlin URC2024.

This project's findings corroborate the need for (re)industrialisation where necessary and expansion of growth contributing sectors that are low carbon from the start. Prioritisation of rebuilding tasks in order of urgency of need. In terms of human resources, focus shall be on immediate and long-term mapping of cadre numbers and skillset needs with corresponding re-skilling, upskilling, and lifelong education opportunities. Cooperative stakeholder relationships are key: between

¹² Yulia Nazarenko is a senior analyst and deputy director of CEDOS think tank.

¹³ Olena Slobodian is a social scientist and a Research assistant at TU Berlin.

the state, private, and public sector, and civil society via inclusive social dialogue that would allow for synergies and coordination to spearhead recovery through vertically and horizontally integrated channels of communication, logistics, supply, and financing chains. Backed up by a cradle to grave care provision and full deployment of state funded public services creates a support network and job/career opportunities where work needs to happen.

Financing (un)sustainably

Financing the recovery is and will be a big challenge. Ukraine needs fiscal activism and deep sustainability, including in financing dimension. There are numerous commitments – international and bilateral - that are designed for that purpose. Exemplary is the Ukraine Facility Fund of the EU approved in May 2024 EU designating some €50 billion of “stable financing, in grants and loans, to support Ukraine's recovery, reconstruction, and modernisation for the period 2024 to 2027”. The expectation is that if all proposed reforms and investments are fully implemented, “Ukraine's GDP could increase by 6.2% by 2027 and by 14.2% by 2040 and could also lead to a reduction of the debt by about 10 percentage points of GDP by 2033”. Yet, as already specified, this is just the start. Significant constraints on public finance emanate from unsustainable levels of state indebtedness and unaffordable interest payments when money is needed to save lives.

Currently Ukraine's finance matters are uncertain. A new loan mechanism with use of Russian frozen assets is discussed and debt restructuring of some \$20 billion (privately held) which is on a 2 year long freeze since

August 2022 in being negotiated. In a report and later book published by CEPR in 2022 already, Barry Eichengreen and Vladyslav Rashkovan called for grants and debt relief,¹⁴ and for stakeholder engagement and for Ukrainians owning the recovery. By now the situation is much worse and solutions will have to be more far-reaching as IMF indicate for some time that the debt is currently classed as unsustainable. Indeed, *debt relief seems like the fair option. Whether and how it might be executed is a matter of hard work and, mostly, political will.* (Indeed, large-scale creative solutions can be found as we saw in the pandemic years and after the 2008 Credit Crunch crisis). A group of creditors such as Canada, France, Germany, Japan, the United Kingdom and USA have agreed a pause on payments till March 2027 as part of the \$122 billion international support package in late 2023. The shape of the commercial debt arrangement restructure will be revealed shortly. Without such Ukraine faces a hard default.

There are two more domains on financial vulnerability – remittances and donations. Remittances are a big part of the economy: in 2021 “Ukraine was the largest recipient of remittances in Europe and Central Asia with record-high inflows of USD 18.2bn”¹⁵, nearly 10% of GDP. While exact numbers are hard to calculate as money can travel as cash through the border, after the initial post-invasion spike there is decrease from 13.9 per cent in 2022 to 9.1 per cent in 2023.¹⁶ War effort crowdfunding is equally hard to accurately estimate yet there is a degree of army reliance¹⁷ and thus vulnerability of those flows of goods and funds which begs for a more sustainable, self-reliant economic model to be designed.

¹⁴ <https://cepr.org/publications/books-and-reports/rebuilding-ukraine-principles-and-policies>

¹⁵ <https://ukraine.iom.int/stories/remittances-war-how-money-abroad-helping-ukraine>

¹⁶

https://www.migrationdataportal.org/international-data?i=remit_re_gdp&t=2023&cm49=804

¹⁷ <https://www.iwm.at/publication/iwmpost-article/trafficking-for-the-nation>



Towards resilient recovery and growth?

It is possible to generate growth and achieve deep sustainability through fiscal expansion this leads to multiplier effect and pays for itself, animates exchange, increases productive output, and brings with it incalculable positive externalities i.e. positive side effects, such as hope, social cohesion, thriving culture, regeneration of nature, faith in a better future and growing birthrates. There are, of course, numerous challenges, including budgetary and that is why it is crucial to highlight that fiscal expansion is key en route to economic self-sufficiency and reduction on donor dependency. Financial support in grants and loans is ongoing yet progressively shrinking against growing domestic demand. Looking ahead, one must plan for gradual and practicable reduction of reliance on aid and loans – a resilient economy is an economically buoyant economy. It is built on solid MSMEs ecosystem, well-maintained infrastructure, logistical and supply chains, and a robust welfare state and public services that re-produce workforce.

Wage-led growth and government spending on public services which can create jobs now, is low carbon, is where work needs to be done now and will be needed for decades to come; it will create jobs and train cadre, (re)build the socio-economic system of goods and services that will scaffold Ukrainians in their rebuilding efforts and incentivise those who left to return as prospects for the future will look better. The aim of the recovery policy planning shall be the construction of an economy centered on meeting and scaffolding the needs of individual – as workers, citizens, and customers - who will carry out the rebuilding.

Promising new developments of the Lugano framework state that the “whole of society” approach is key alongside the principles of sustainability and justice, with Ukrainians leading the process. For that to materialize, a foundational legal framework needs to be established and enforced. It would solidify a fair social contract that secures Ukraine as a sovereign and independent, democratic, social, law-based state, with its constitution enshrining the foundations of a fair social contract as the highest legal force. This would be a document that guarantees social security for all human beings and holds their life and health, honour and dignity, inviolability and security as the highest social values. For Ukrainians to lead the process and retain the product of it, they (those alive now and the future generations) must collectively - by proxy of a polycentric and decentralised state - own the land, subsoil, atmosphere, water, and other natural resources within Ukraine’s territory, as well as the natural resources of its continental shelf and its exclusive maritime economic zone. For recovery to be sustainable, the use of property must not cause harm to the rights, freedoms, and dignity of citizens as well as the interests of society, or aggravate the ecological situation and the natural qualities of the land. In fact, all these positions are already in the current constitution. Ahead lies the reinstatement of Ukraine’s territorial integrity and sovereignty for which reliable, timely, and sufficient arms supplies are key – only this can secure regaining control over Ukraine’s constitutional territory and its people currently captured by Russia. Enforcement of the Constitution through reforms that would finally deliver the materialization of the rights and social guarantees for and by those who perform the function of the state and who constitute it— all those who call Ukraine home – are the ultimate task and a bedrock for a fair social contract, (re)building the country, and towards a lasting peace.

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