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REBUILDING UKRAINE: STRATEGIC PRIORITIES

Policy Brief by Igor Popov,
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LibMod Policy Paper

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INTRODUCTION

Russian aggression has resulted in significant human and material losses for Ukraine. In four years of full-scale war, hundreds of thousands of Ukrainians have been killed or wounded, and millions have been displaced. Approximately 6.9 million Ukrainian refugees are abroad, mainly in Europe, while another 3.7 million are internally displaced.¹ Infrastructure and housing have been severely affected, with approximately 13 percent of all residential buildings destroyed or damaged, leaving more than 2.5 million families without a home. A joint assessment by the Ukrainian government, the World Bank, the United Nations, and the European Commission estimates postwar reconstruction needs at 524 billion US dollars (almost 500 billion euros), a figure that continues to rise due to ongoing attacks on critical infrastructure.²

Ukraine will require the largest reconstruction effort in Europe since World War II.

Failure to rebuild risks ongoing instability, increased migration, and economic challenges that would affect Western countries.

After the war, Ukraine will require the largest reconstruction effort in Europe since World War II. Supporting Ukraine's recovery is both a moral responsibility and a strategic investment in European stability. A strong, economically integrated Ukraine will strengthen the European Union's eastern border and contribute to collective security. In contrast, failure to rebuild risks ongoing instability, increased migration, and economic challenges that would affect Western countries. Assisting Ukraine's reconstruction is therefore in the interests of Germany and the EU, as it supports lasting peace and prosperity across Europe.

That said, we need to move beyond restoring Ukraine to its previous state and instead focus on transforming the country. The goal should be to build a modern economy that generates sustainable income and is fully integrated with the EU's internal market.

This policy brief analyzes the key priorities for Ukraine's postwar reconstruction and formulates recommendations for Germany and the EU on supporting Ukraine's recovery.

1 Ukraine Refugee Crisis: Aid, Statistics and News | USA for UNHCR, <https://www.unrefugees.org/emergencies/ukraine/>

2 Ukraine needs \$524 billion to recover, rebuild after three years of war, World Bank says | Reuters, <https://www.reuters.com/world/europe/ukraine-needs-524-billion-recover-rebuild-after-three-years-war-world-bank-says-2025-02-25/>

Priorities for the recovery plan

Following victory, Ukraine can accelerate its development by attracting modern technologies and investments to establish new industries.

Key priorities include:

- **Diversifying industry.** Ukraine should shift from an outdated raw-materials model, such as metallurgy and chemistry, to higher-value-added sectors, including machine building, processing, defense industry, information technology (IT), and creative industries.
- **Agricultural production with more processing.** Ukraine is traditionally one of the leaders in the export of grain and agricultural raw materials. Full integration into the EU market requires a transition from exporting raw materials to exporting more deeply processed products (food products, biofuels, food ingredients, etc.). This requires a new generation of processing enterprises that are oriented toward EU standards.
- **Energy transformation.** Damage to power plants and networks offers a chance to modernize the sector. Rebuilding should focus on renewable sources and high energy efficiency, moving away from coal dependency. Nuclear energy remains important due to the 15 existing reactors, but further development and integration with the European energy network require better security measures.
- **Supplying critical minerals to Europe.** Ukraine holds substantial reserves of minerals that the EU considers critical, including lithium, titanium ores, rare earth elements, uranium, and gas. Partnering with European stakeholders to develop these resources would strengthen the EU's strategic autonomy. Targeted investment in extraction and processing, especially for lithium and graphite, could directly support Europe's battery and electric vehicle industries.

Selected reconstruction projects in infrastructure and industry

Amid ongoing war, Ukraine and its international partners initiated individual projects intended as pilot models for future large-scale reconstruction. These initiatives exemplify key strategies for subsequent efforts, including public-private partnerships, adoption of European Union technologies, military risk insurance, and the pursuit of mutual benefits. Illustrative examples include:

- **Modular housing with German support.** In 2024, Vollert Anlagenbau GmbH, together with Ukrainian partners, launched a project to create a network of house-building enterprises for the rapid construction of affordable housing.³
- **Modernization of energy infrastructure** (cooperation with Siemens Energy). At the June 2024 Ukraine Recovery Conference in Berlin, Naftogaz of Ukraine and Siemens Energy signed a memorandum to jointly modernize Europe's largest underground gas storage facilities and construct new combined-cycle gas turbine power plants.⁴
- **Logistics and railway projects.** Ukraine runs several logistics and railway projects designed to restore and expand transport corridors with the European Union. These initiatives include the reconstruction of border roads and checkpoints, the development of narrow-gauge (European standard) railways from western Ukraine to major logistics hubs, and the modernization of ports on the Danube. Germany participates, particularly through Deutsche Bahn; Germany and Ukraine have signed an agreement to support Ukrainian train operator Ukrzaliznytsia with management and logistics.⁵

3 Germany sets up modern production facilities in Ukraine to build low-cost mass housing - UkraineInvest, <https://ukraineinvest.gov.ua/en/news/germany-sets-up-modern-production-facilities-in-ukraine-to-build-low-cost-mass-housing/>

4 Naftogaz Group to Collaborate with Siemens Energy on Modernizing Ukrainian UGS, Heat and Power Production - Memoranda Signed | Naftogaz Ukraine, <https://www.naftogaz.com/en/news/collaborate-with-siemens-energy>

5 Deutsche Bahn AG has reaffirmed its support for Ukrainian Railways by signing a memorandum of understanding <https://www.dbcargo.com/rail-de-en/logistics-news/db-cargo-db-schenker-launch-of-rail-aid-link-to-ukraine-7331014>

Reconstruction planning and management tools

The Ukrainian government has formed a National Reconstruction Council and developed a draft National Reconstruction Plan, which has been presented at international conferences (Lugano 2022, London 2023, Berlin 2024, Rome 2025). These forums established the principles of transparency, accountability, inclusivity, and compliance with reforms as key to Ukraine's recovery efforts. Donors have created the G7+ Coordination Platform to align assistance projects. The Prosperity Framework, a comprehensive plan for Ukraine's transformation and reconstruction, has also been announced and may serve as a unified framework for all projects and funding.

A key challenge is balancing centralized planning with local needs. While national priorities are essential, each region has unique needs and potential. The reconstruction program should remain flexible, allocating resources where they will have the greatest local impact.

Germany can contribute to the local dimension of reconstruction by sharing its experience in regional development. Relevant examples include the reconstruction of East Germany following reunification through the Aufbau Ost (or reconstruction of the East) program launched in 1990 and the current system of financial equalization among federal lands. For Ukraine, as a unitary state, it is important not to replicate the model directly, but rather to introduce elements that promote the equalization of regional development.

Integrity and anti-corruption are critical for securing international support. Ukrainian authorities have adopted a policy of "zero tolerance" for abuses during reconstruction, recognizing that partner and public trust is essential. Reconstruction projects must implement transparent and accountable procedures for project selection, procurement, and dispute resolution.

In January 2026, Anka Feldhusen, a former German ambassador to Ukraine, became Ukraine's business ombudsman. She brings significant expertise and experience to the role.

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Recovery and integration into the EU: clusters and markets

Ukraine's potential EU membership is a strong driver for postwar reconstruction. Rebuilding efforts must align with EU norms and standards. This dual track benefits both sides: Ukraine gains modernization and market access, while the EU secures greater stability and new economic opportunities.

Together, Ukraine and Europe must identify industry clusters where Ukraine can complement the European economy. Key sectors include the automotive industry (localized production of components, wire assemblies, and batteries), chemical industry (production of fertilizers, soda, and polymers for the EU domestic market, in particular at the Odesa port plant, provided it is modernized), and the defense industry (joint production of ammunition, drones, repair bases). Set against the backdrop of the Bundeswehr's rearmament, such partnerships could become strategically important.

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Ukraine is a major global food supplier. Integrating its agricultural markets with the EU offers mutual benefits: Europe secures a reliable source of grain and vegetable oil, while Ukraine gains access to processing technologies and more added value. After the war, the EU should consider a long-term duty-free regime for Ukrainian exports, alongside investments to help Ukrainian producers meet EU veterinary, plant health, and environmental standards. Market access will encourage farmers to invest in processing facilities, from food production to bioethanol plants.

Ukraine has already joined the European Network of Transmission System Operators for Electricity (ENTSO-E), which enables trade in electricity with the European Union. Following the war, substantial private investment in renewable energy, particularly in solar and wind power plants, is anticipated in Ukraine, with the objective of exporting renewable electricity to Europe.

The cluster of critical raw materials is particularly significant. The EU has identified more than 30 strategic minerals, including rare earths, lithium, and cobalt, many of which could be mined in Ukraine.

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Who will pay?

No single donor can meet all of Ukraine's needs. Funding will require a combination of Ukraine's resources, grants and loans from partners, international funds, private capital, and innovative measures such as the use of confiscated Russian assets. The main sources are outlined below:

- **Frozen Russian assets (reparations).** The G7 and EU countries have frozen approximately 300 billion US dollars in Russian state reserves, as well as tens of billions in private assets belonging to sanctioned individuals. Western countries are exploring legal mechanisms for directing at least part of these funds toward Ukraine's reconstruction. In December 2025, EU members failed to reach a consensus on the allocation of a "reparation loan," but the option remains to direct these funds toward reconstruction under a comprehensive peace plan negotiated with Russia.
- **Multilateral EU funds and programs.** The European Union has established a dedicated financial instrument, Ukraine Facility,⁶ which provides funding for reconstruction and supports reform initiatives. Following accession to the EU, Ukraine is expected to become the largest recipient of structural and investment funds, including those for regional development, agriculture, and infrastructure.
- **Direct assistance from partner countries.** Germany has allocated approximately 11.5 billion euros in aid to Ukraine for 2026⁷ and has expressed willingness to provide additional support as needed. Future aid should transition from emergency grants to joint investment projects. For instance, rather than direct transfers for road repairs, co-financing agreements could be established that involve German contractors and suppliers.

⁶ https://commission.europa.eu/topics/eu-solidarity-ukraine/eu-assistance-ukraine/ukraine-facility_en

⁷ Für das Jahr 2026 sind rund 11,5 Milliarden Euro an Militärhilfe für die Ukraine vorgesehen
<https://www.bundesregierung.de/breg-de/aktuelles/bundeshaushalt-2026-2374030>

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- **International financial organizations (IFOs).** The World Bank, the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), and the European Investment Bank are implementing programs in Ukraine. The IMF intends to launch a new program from 2026 to 2029 valued at 8.1 billion US dollars.⁸ The World Bank coordinates the Rapid Damage and Needs Assessment (RDNA) and prepares trust funds, while the EBRD invests in critical sectors such as energy and logistics. These institutions can mobilize capital rapidly but require guaranteed contributions from member states.
- **Private investment.** Attracting large-scale private capital to Ukraine remains both highly desirable and challenging. Without significant private investment, the new economy will not reach its full potential. Businesses are primarily interested in sectors with high profit potential, such as energy, information technology, metallurgy, agriculture, and real estate. However, investment is constrained by perceived risks and weak institutional frameworks. The Ukrainian government is undertaking measures to improve the investment climate, including judicial and tax reforms as well as anti-oligarch legislation.

⁸ IMF and Ukrainian authorities reach Staff-Level Agreement on a new US\$8.1 billion
<https://www.imf.org/en/news/articles/2025/11/26/pr-25399-ukraine-agreement-on-new-us-8-point-1-billion-eff-arrangement>

Security guarantees, risk management, special regimes

Large-scale reconstruction is only possible with basic security. Investors and donors will consider Ukraine only under conditions of lasting peace or effective security guarantees. Diplomatic efforts to end the war and reach relevant agreements are therefore critical to the prospects for reconstruction.

At the beginning of 2026, the leading countries, including the United States, the United Kingdom, France, and Germany, are evaluating multiple models of security guarantees for Ukraine. These guarantees will likely be formalized in separate agreements, either political or legally binding. For the private sector, practical security measures are critical, such as the deployment of air defense systems, the establishment of international peacekeeping or monitoring missions, and the development of clear protocols for activating guarantees in the event of renewed hostilities. Ideally, after the war in Ukraine, an international mission (under the auspices of the UN or a coalition of allies) should be established to monitor compliance with the terms of the peace agreement and be able to respond quickly to incidents. Its presence will be

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an additional deterrent to potential provocations and will create a psychological sense of security for civilians working on reconstruction. An important point in all draft security guarantee agreements is that they only come into force after the end of the war or the declaration of a ceasefire, which is unlikely at this stage given Russia's position.

Risk insurance is essential for investors, as only governments can cover the significant losses that private investors fear, such as facility destruction from air strikes. Pilot programs are already underway, including those by the United Kingdom (UKEF), the United States (DFC), and the EBRD. Germany should consider establishing a national war risk insurance program for German companies operating in Ukraine.

Projects in areas directly affected by hostilities, such as eastern Ukraine (Donetsk and Luhansk) and southern coastal regions (parts of Kherson and Zaporizhzhia), will remain high-risk even after a ceasefire. These regions hold significant industrial assets and natural resources vital to Ukraine and Europe. Preliminary work on economic projects can only begin once a comprehensive ceasefire is in place. Therefore, continued pressure from Ukraine's partners on Russia to moderate its demands and agree to a cessation of hostilities is essential to restarting economic activity in these frontline areas. Examples of potential projects include:

- **Shale gas deposits in the Donbas.** The Yuzivska gas field in the Kramatorsk-Sloviansk area of Donbas is among the largest shale gas deposits in Europe, with estimated reserves of up to four trillion cubic meters.
- **Zaporizhzhia Nuclear Power Plant (ZNPP).** The largest nuclear power plant in Europe is currently occupied and mothballed. Its safe return to operation is a challenge on an international scale. One option is to create a demilitarized zone around the ZNPP with peacekeepers or transfer control to a special administration, possibly involving the IAEA and operators from the US or EU.
- **Resuming coal mining for metallurgy.** Before the war, the Pokrovsk coal mine in the Donetsk region supplied up to 40 percent of Ukraine's coking coal, essential for metallurgy. Mining has stopped due to ongoing hostilities. One proposed solution is to establish a demilitarized and free economic zone.
- **Safe navigation on the Black Sea and the Dnipro River.** Russia's blockade of ports and shipping is a constant risk to Ukrainian exports. After the war, it will be necessary to restore full port operations at Odesa and Mykolaiv, and to clear the Dnipro River fairway.

Western economic interests in Ukraine can help ensure lasting peace. When European companies operate in Ukraine, German banks finance reconstruction, and insurers cover risks, Western governments remain engaged with Ukraine's security.

Ukraine's reconstruction is a shared effort that will shape Europe's future for decades. For Germany, supporting this process is a historic responsibility with mutual benefits. Investing in Ukraine's economy strengthens Germany's security, expands markets, secures resources, and reinforces a rules-based international order. Each euro invested in rebuilding Ukrainian cities and industries will yield economic and geopolitical returns.



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