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# How to Sustain Support for Ukraine and Overcome Financial and Political Challenges | SITE Development Day 2022

The Russian war on Ukraine has turmoiled Europe into its first war in decades and while the effects of the war are harshly felt in Ukraine with lives lost and damages amounting, Europe and the rest of the world are also being severely affected. This policy brief shortly summarizes the presentations and discussions at the **SITE Development Day Conference**, held on December 6, 2022. The main focus of the conference was how to maintain and organize support for Ukraine in the short and long run, with the current situation in Belarus and the region and the ongoing energy crisis in Europe, also being addressed.



## War in Ukraine, Oppression in Belarus

Starting off the conference, Sviatlana Tsikhanouskaya, Leader of the Belarusian Democratic Forces, delivered a powerful speech on the necessity of understanding the role of Belarus in the ongoing war in Ukraine. Tsikhanouskaya argued that Putin's war on Ukraine was partly a result of the failed Belarusian revolution of 2020. The following oppression, torture, and mass arrestations of Belarusians is a consequence of Lukashenka's and Putin's fear of a free Belarus, a Belarus that is no longer in the hands of Putin – who sees not only Belarus but also Ukraine as colonies in his Russian empire. Amidst the fight for Ukraine, we must also fight for a free Belarus, Tsikhanouskaya added. Not only Belarusians fighting alongside Ukrainians against Russia in Ukraine, but also other parts of the Belarusian opposition need support from the free and democratic world and the EU. The massive crackdowns on opponents of the Belarusian regime today and the war on Ukraine are not only acts of violence, but they are also acts against democracy and freedom. The world must therefore continue to give support to those fighting in both Belarus and Ukraine. Ukraine will never be free unless Belarus is free, Tsikhanouskaya concluded.

Johan Forssell, Minister of Foreign Trade and International Development Cooperation continued Tsikhanouskaya's words on how the Russian attack must be seen and treated as a war on democracy and the free world. Belarus, Moldova and especially Ukraine will receive further support from Sweden, Forssell continued, adding that the Swedish support to Ukraine has more than doubled since the invasion in February 2022. Support must however not be given only in economic terms and consequently Sweden fully supports Ukraine on its path to EU-membership, which will be especially emphasized during Sweden's upcoming EU-presidency. Support for

the rule of law, democracy and freedom will continue to be essential and, in the forthcoming reconstruction of Ukraine, these aspects – alongside long term sustainable and green solutions – must be integrated, Forssell continued. Forssell also mentioned the importance of reducing the global spillover effects from the war. In particular, Forssell mentioned how the war has struck countries on the African continent, already hit with drought, especially hard with increased food prices and increased inflation, displaying the vital role Ukrainian grain exports play.

Andrij Plachotnjuk, Ambassador Extraordinary and Plenipotentiary of Ukraine to the Kingdom of Sweden, further talked about the need for rebuilding a better Ukraine, emphasizing the importance of involvement from Kiyv School of Economics (KSE) and other intellectuals and businesses in this process. Plachotnjuk also pinpointed what many others would come to repeat during the day; that resources, time and efforts devoted to supporting Ukraine must be maintained and persevered in the longer perspective.

## Economic Impacts From the War and How the EU and Sweden Can Provide Support

During the first half of the conference, the Ukrainian economy and how it can be supported by the European Union was also discussed. On link from Kiyv, Tymofiy Mylovanov, President of the Kyiv School of Economics, shared the experiences of the University during wartime and presented the work KSE has undertaken so far – and how this contributes to an understanding of the damages and associated costs. Since the invasion, KSE has supported the government in three key areas; 1) Monitoring the Russian economy, 2) Analyzing what sanctions are relevant and effective, and 3) Estimating the cost of damages from the war. For the latter, KSE is collaborating with the World Bank using

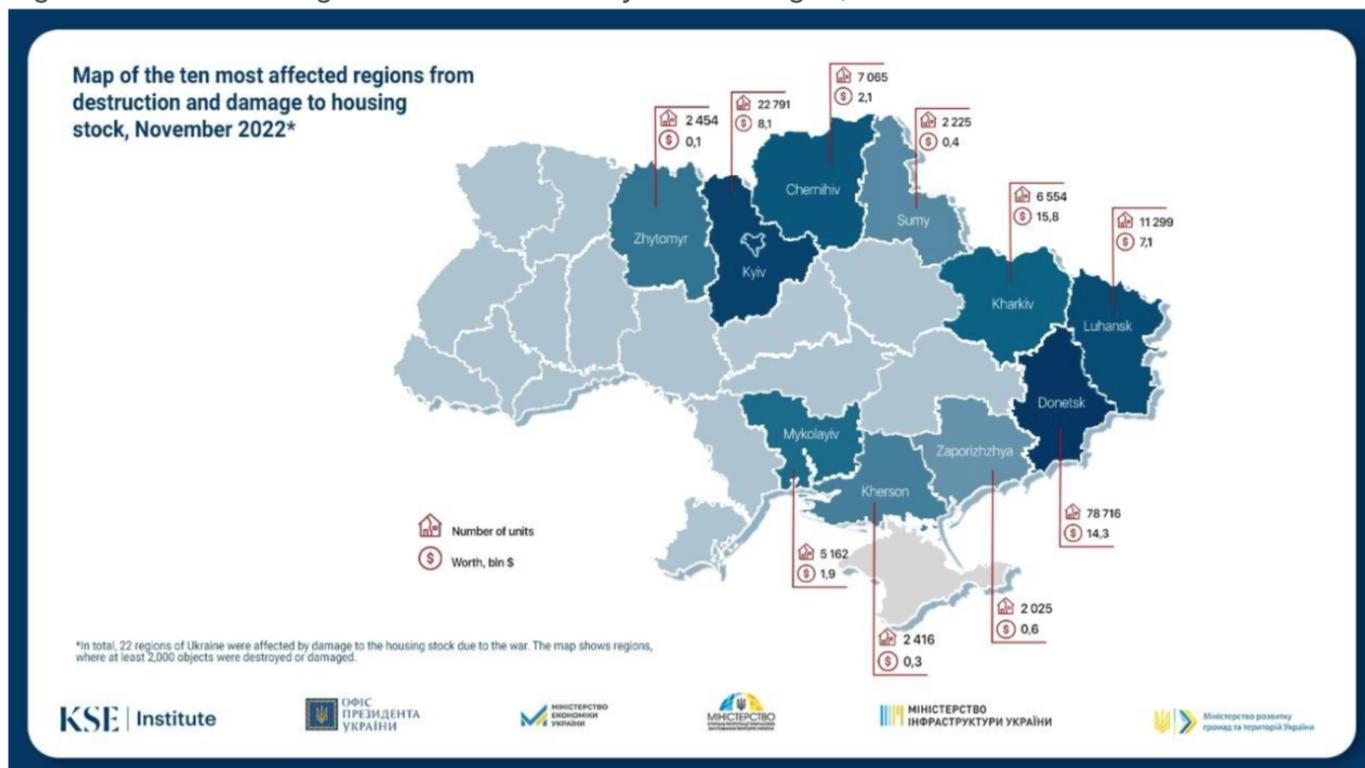


established methods of damage assessment including crowd sourced information on damages complemented with images taken by satellites and drones. According to Mylovanov, the damage assessment is crucial in order to counter Russia’s claims of a small conflict and to remind the international community of the high price Ukraine is paying to hold off Russia.

The economic impact from the war was further accentuated during the presentation by Yulia Markuts, Head of the Centre of Public Finance and Governance Analysis at the Kyiv School of Economics. Markuts explained how the Ukrainian national budget as of today is a “wartime budget”. Since February 2022, the budget has been reoriented with defense and security spending having increased 9 times compared to 2021, whereas only the most pressing social expenditures have been implemented. This in a

situation where the Ukrainian GDP has simultaneously decreased by 30 percent. Although there has been a substantial inflow of foreign aid, in the form of grants and loans, the Ukrainian budget deficit for 2023 is estimated to 21 percent. Part of the uncertainty surrounding the Ukrainian budget stems from the fact that the inflow from the donor community is irregular, prompting the government to cover budget deficits through the National Bank which fuels inflation and undermines the exchange rate. Apart from the large budget posts concerning military spending, major infrastructural damages are putting further pressure on the Ukrainian budget in the year to come, Markuts continued. As of November 2022, the damages caused by Russia to infrastructure in Ukraine amounted to 135,9 billion US Dollars, with the largest damages having occurred in the Kyiv and Donetsk regions, as depicted in Figure 1.

Figure 1. Ukrainian regions most affected by war damages, as of November 2022.



Source: Kiyv School of Economics

The infrastructural damages constitute a large part of the estimated needed recovery support for Ukraine, together with losses to the state and businesses amounting to over one trillion US Dollars. However, such estimates do not cover the

suffering the Ukrainian people have encountered from the war.



The large need for steady support was discussed by Fredrik Löjdquist, Centre Director of the Stockholm Centre for Eastern European Studies (SCEEUS), who argued the money needs to be seen as an investment rather than a cost, and that we at all times need to keep in mind what the consequences would be if the support for Ukraine were to fizzle out. Löjdquist, together with Cecilia Thorfinn, Team leader of the Communications Unit at the Representation of the European Commission in Sweden, also emphasized how the reconstruction should be tailored to fit the standards within the European Union, given Ukraine's candidacy status. Thorfinn further stressed that the reconstruction must be a collective effort from the international community, although led by Ukraine. The EU is today to a large extent providing their financial support to Ukraine through the European Investment Bank (EIB). Jean-Erik de Zagon, Head of the Representation to Ukraine at the EIB, briefly presented their efforts thus far in Ukraine, efforts that have mainly been aimed at rebuilding key infrastructure. Since the war, the EIB has deployed an emergency package of 668 million Euro and 1,59 billion for the infrastructure financing gap. While all member states need to come together to ensure continued support for Ukraine, the EIB is ready to continue playing a key role in the rebuilding of Ukraine and to provide technical assistance in the upcoming reconstruction, de Zagon said. This can be especially fruitful as the EIB already has ample knowledge on how to carry out projects in Ukraine.

During a panel discussion on how Swedish support has, can and should continuously be deployed, Jan Ruth, Deputy Head of the Unit for Europe and Latin America at Sida, explained Sida's engagement in Ukraine and the agency's ambition to implement a solid waste management project. The project, in line with the need for a green and environmentally friendly rebuild, is today especially urgent given the massive destructions to Ukrainian buildings which has generated large amounts of construction waste.

Karin Kronhoffer, Director of Strategy and Communication at Swedfund, also accentuated the need for sustainability in the rebuild. Swedfund invests within the three sectors of energy and climate, financial inclusion, and sustainable enterprises, and has previously invested within the energy sector in Ukraine. Swedfund is also currently engaged in a pre-feasibility study in Ukraine which would allow for a national emergency response mechanism. Representing the business side, Andreas Flodström, CEO and founder of Beetroot, shared some experiences from founding and operating a tech company in Ukraine for the last 10 years. According to Flodström there will, apart from a huge need in investments in infrastructure, also be a large need for technical skills in the rebuild. Keeping this in mind, bootcamp style educations are a necessity as they provide Ukrainians with essential skills to rebuild their country.

A recurring theme in both panel discussions was how the reconstruction requires both public and private foreign investments. Early on, as the war continues, public investments will play the dominant part, but when the situation becomes more stable, initiatives to encourage private investments will be important. The potential of using public resources to facilitate private investments through credit guarantees and other risk mitigation strategies was brought up both at the European and the Swedish level, something which has also been emphasized by the new Swedish government.

## Impacts From the War Outside of Ukraine – Energy Crisis and Other Consequences in the Region

The conference also covered the effects of the war outside of Ukraine, initially keying in on the consequences from the war on energy supply and prices in Europe. Chloé Le Coq, Professor of Economics, University Paris-Panthéon-Assas



(CRED) & SITE, gave a presentation of the current situation and the short- and long-term implications. Le Coq explained that while the energy market is in fact functioning – displaying price increases in times of scarcity – the high prices might lead to some consumers being unable to pay while some energy producers are making unprecedented profits. The EU has successfully undertaken measures such as filling its gas storage to about 95 percent (goal of 80 percent), reducing electricity usage in its member countries, and by capping market revenues and introducing a windfall tax. While the EU is thus appearing to fare well in the short run, the reality is that EU has increased its coal dependency and paid eight times more in 2022 to fill its gas storage (primarily due to the imports of more costly Liquefied Natural Gas, LNG). In the long run, these trends are concerning given the negative environmental externalities from coal usage and the market uncertainty when it comes to the accessibility and pricing of LNG. Uncertainties and new regulation also hinder investments signals into new low-carbon technologies, Le Coq concluded. Bringing an industrial perspective to the topic, Pär Hermerèn, Senior advisor at Jernkontoret, highlighted how the energy crisis is amplified by the increased electricity demand due to the green transition. Given the double or triple upcoming demand for electricity, Hermerèn, referred back to the investment signals, saying Sweden might run the risk of losing market shares or even seeing investment opportunities leave Sweden. This aspect was also highlighted by Lars Andersson, Senior advisor at Swedenergy, who, like Hermerèn, also saw the Swedish government's shift towards nuclear energy solutions. Andersson stated the short-term solution, from a Swedish perspective, to be investments into wind power, urging policy makers to be clear on their intentions in the wind power market.

Other major impacts from the war relate to migration, a deteriorating Belarusian economy and security concerns in Georgia. Regarding the latter, Yaroslava Babych, Lead economist at ISET

Policy Institute, Georgia, shared the major developments in Georgia post the invasion. While the Georgian economic growth is very strong at 12 percent, it is mainly driven by the influx of Russian money following the migration of about 80 000 Russians to Georgia. This has led to a surge in living costs and an appreciation of the local currency (the Lari) of 12,6 percent which may negatively affect Georgian exports. Additionally, it may trigger tensions given the recent history between the countries and the generally negative attitudes towards Russians in Georgia. Michal Myck, Director at CenEa, Poland, also presented migration as a key challenge. While the in- and outflow of Ukrainian refugees to Poland is today balanced, the majority of those seeking refuge in Poland are women and children and typically not included in the workforce. To ensure successful integration and to avoid massive human capital losses for Ukraine, Myck argued education is key, pointing to the lower school enrollment rates among refugee children living closer to the Ukrainian border. Apart from the challenges posed by the large influx of Ukrainian in the last year, the Polish economy is also hit by high energy prices, fuel shortages and increasing inflation. Lev Lvovskiy, Research fellow at BEROC, Belarus, painted a similar but grimmer picture of the current economic situation in Belarus. Following the invasion, all trade with Ukraine has been cut off, while trade with Russia has increased. Belarus is facing sanctions not only following the war, but also from 2020, and the country is in recession with GDP levels dropping every month since the invasion. Given the political and economic situation, the IT sector has shrunk, companies oriented towards the EU has left the country and real salaries have decreased by 5 percent. At the same time, the policy response is to introduce price controls and press banknotes.



## Consequences of War: An Academic Perspective

The later part of the afternoon was kicked off by a brief overview of the **FREE Network's** research initiatives on the links between war and certain development indicators. Pamela Campa, Associate Professor at SITE, presented current knowledge on the connection between war and gender, with a focus on gender-based violence. Sexual violence is highly prevalent in armed conflict and has been reported from both sides in the Donetsk and Luhansk regions since 2014 and during the ongoing war, with nearly only Russian soldiers as perpetrators. Apart from the direct threats of sexual violence during ongoing conflict and fleeing women and children risking falling victims to trafficking, intimate partner violence (IPV) has been found to increase post conflict, following increased levels of trauma and post-traumatic stress disorder (PTSD). While Ukrainian policy reforms have so far strengthened the response to domestic violence there is still a need for more effective criminalization of domestic violence, as the current limit for prosecution is 6 months from the date crime is committed. An effective transitional justice system and expertise on how to support victims of sexual violence in conflict, alongside economic safety measures undertaken to support women and children fleeing, are key policy concepts Campa argued. Coming back to the broader topic of gender and war, Campa highlighted the need for involvement of women in peace talks and negotiations, something research suggests matter for both equality, representativeness, and efficiency.

Providing insights into the relationship between the environment and war, Julius Andersson, Assistant Professor at SITE, initially summarized how climate change may cause conflict along four channels: political instability and crime rates increasing as a consequence of higher temperatures, scarcity of natural resources and environmental migration. Conflict might however also cause environmental degradation in the form

of loss of biodiversity, pollution and making land uninhabitable. As for the negative impact from the war in Ukraine, Andersson highlighted how fires from the war has caused deforestation affecting the ecosystems, that rivers in conflict struck areas in Ukraine and the Sea of Azov are being polluted from wrecked industries (including the Azovstal steelworks) and lastly that there is a real threat of radiation given the four major nuclear plants in Ukraine being targeted by Russian forces. Coming back to a topic mentioned earlier during the day, Andersson also emphasized potential conflict spillovers into other parts of the world due to the war's impact on food and fertilizer prices.

Concluding the session, Jonathan Lehne, Assistant Professor at SITE, reviewed how war and democracy is tied to one another, highlighting that while studies have found that democracies per se are not necessarily less conflict prone, it is still the case that democratic countries almost never fight each other. As for the microlevel takeaways from previous research, it appears as if individuals and communities having experienced violence and casualties actually reap a democratic dividend in some respects, such as greater voting participation. On the other hand, while areas with a large refugee influx also experience an increased voter turnout, voting for right-wing parties also increase with politicians exploiting this in their communication.

## Book Launch – Reconstruction of Ukraine: Principles and Policies

The Development Day was also guested by Ilona Sologoub, Scientific Editor at VoxUkraine, Tatyana Deryugina, Associate Professor of Finance at the University of Illinois at Urbana-Champaign, and Torbjörn Becker, Director of SITE, who presented their newly released book “Reconstruction of Ukraine: Principles and policies”. Sologoub started off by giving an overview of the mainly economic topics covered



in the book and pointing out that the main purpose of the book is to inform policy makers about the present situation and to suggest needed reforms and investments. Becker outlined the four key principles recommended to stem corruption during reconstruction; 1) Remove opportunities for corruption and rent extraction, 2) Focus on transparency and monitoring of the whole reconstruction effort, 3) Make information and education an integral part of the anti-corruption effort, and 4) Set up legal institutions that are trusted when corruption does occur. Deryugina focused on the energy sector and related back to what had previously been discussed throughout the day, the need to “build-back-better”. Deryugina mentioned that Ukraine, previously heavily reliant on coal and gas imports from Russia, now have the opportunity to steer away from low energy efficiency and bottleneck issues, towards becoming a European natural gas hub. The book is available for free [here](#). There will also be a [book launch](#) on the 11th of January 2023 at Handelshögskolan.

## Concluding Remarks

Via link from Kiyv, Nataliia Shapoval, Head of KSE Institute and Vice President for Policy Research at Kyiv School of Economics closed the conference by emphasizing the urgency of continued education of Ukrainians in Ukraine and elsewhere to avoid loss of Ukrainian human capital. Shapoval also stressed how universities can act as thinktanks, support policy makers in Ukraine and Europe to come up with effective sanctions against Russia and provide a deeper understanding of the current situation – a situation which will linger and in which Ukraine needs continued full support.

This year’s SITE Development Day conference gave an opportunity to discuss the need for continued support for Ukraine and the implications from the war in a global, European, and Swedish perspective. Representatives from the political, public, private and academic sectors contributed with their insights into the challenges

and possibilities at hand, providing greater understanding of how the support can be sustained, with the goal of a soon end to the war and a successful rebuild of Ukraine.

## List of Participants in Order of Appearance

**Anders Olofsgård**, Deputy Director at SITE

**Sviatlana Tsikhanouskaya**, Leader of the Belarusian Democratic Forces

**Johan Forssell**, Minister of Foreign Trade and International Development Cooperation

**Andrij Plachotnjuk**, Ambassador Extraordinary and Plenipotentiary of Ukraine to the Kingdom of Sweden

**Tymofiy Mylovanov**, President of the Kyiv School of Economics (on link from Kyiv)

**Yuliya Markuts**, Head of the Centre of Public Finance and Governance Analysis, Kyiv School of Economics

**Jean-Erik de Zagon**, Head of the Representation to Ukraine at the European Investment Bank

**Cecilia Thorfinn**, Team leader of the Communications Unit at the Representation of the European Commission in Sweden

**Fredrik Löjdquist**, Centre Director of the Stockholm Centre for Eastern European Studies (SCEEUS)

**Jan Ruth**, Deputy Head of the Unit for Europe and Latin America at Sida

**Karin Kronhöffer**, Director of Strategy and Communication at Swedfund

**Andreas Flodström**, CEO and founder of Beetroot

**Chloé Le Coq**, Professor of Economics, University Paris-Panthéon-Assas (CRED) & SITE

**Lars Andersson**, Senior advisor at Swedenergy

**Pär Hermerèn**, Senior advisor at Jernkontoret



**Ilona Sologoub**, VoxUkraine scientific editor (on link)

**Tatyana Deryugina**, Associate Professor of Finance at the University of Illinois at Urbana-Champaign (on link)

**Torbjörn Becker**, Director at SITE

**Michał Myck**, Director at CenEa, Poland

**Yaroslava Babych**, Lead economist at ISET Policy Institute, Georgia

**Lev Lvovskiy**, Research fellow at BEROOC, Belarus

**Pamela Campa**, Associate Professor at SITE

**Julius Andersson**, Assistant Professor at SITE

**Jonathan Lehne**, Assistant Professor at SITE

**Nataliia Shapoval**, Head of KSE Institute and Vice President for Policy Research at Kyiv School of Economics (on link)





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Anders Olofsgård is currently Deputy Director at the Stockholm Institute of Transition Economics (SITE) and Associate Professor at the Stockholm School of Economics. Before that, he was Associate Professor at the Edmund A. Walsh School of Foreign Service, Georgetown University. He earned his Ph.D. in Economics from the Institute for International Economic Studies (IIES), at Stockholm University, in 2001. Olofsgård's primary research areas are political economy, development and applied microeconomics, and he has published widely in both economics and political science journals. He has also been a visiting scholar at the research department of the IMF and done work for among others the World Bank, USAID and the Swedish Parliament.



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