

The political economy of a green recovery in Ukraine

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Key messages

- There are great hopes for a green recovery from the war in Ukraine, as articulated in the Ukraine Recovery Conference in London in June 2023. ‘Building back greener’ offers the opportunity for Ukraine to transform into a more technologically advanced, sustainable economy and to bolster its national security by building resilience in key sectors such as agriculture and energy. This will require significant reconstruction resources and government planning and implementation capacities. In an economy still dominated by actors who made fortunes by extracting rents from natural resources and inefficient Soviet-era industry, green reconstruction will also need to challenge some politically influential vested interests.
- Based on research supported by the [Targeting Natural Resource Corruption](#) (TNRC) project for the Worldwide Fund for Nature (WWF) Ukraine, this brief considers the key political factors that will affect green recovery. It calls on the Ukrainian government and civil society and Ukraine’s international partners to:
 1. **Take account of political economy:** An understanding of the influences, interests and motivations that may oppose key reforms will be important, especially for Ukraine’s international reconstruction partners.
 2. **Join up the anti-corruption and environmental reform agendas:** For a truly green recovery, the environment sector should be seen as a key part of national governance and anti-corruption reform priorities, and there should be more collaboration between initiatives in these areas.
 3. **Ensure citizen and community involvement in the entire cycle of recovery,** ranging from a seat at the table for civil society in planning reconstruction to the inclusion of decentralised recovery approaches, in which communities can select and also help implement projects.
 4. **Build on community self-help initiatives during wartime,** such as smallholder self-help and war effort initiatives in agriculture or neighbourhood rooftop solar panels and ground-mounted installations. These could be the foundation for small-scale community recovery projects.

1. Background

There are high hopes that Ukraine can deliver the world's first green large-scale post-war recovery process. The Ukrainian government made hugely ambitious green commitments at the June 2023 [Ukrainian Recovery Conference in London](#), including to produce [more than 100 GW of new green generation capacity as well as over 40 million tonnes of 'green steel'](#). Ukraine also has committed to the [phase-out of coal](#) by 2035. Building back greener offers Ukraine the opportunity to transform into a more technologically advanced and sustainable economy, and to boost its national security, not least in providing more resilient agriculture, infrastructure and energy security. Doing so will also be a significant political endeavour, with potential winners and losers, supporters and opponents in every key delivery and reform area. After all, Ukraine has long been a [resource-oriented economy](#),¹ in which rent-seeking groups have made huge profits by exploiting these resources.

This Policy Brief is based on a 2022 political economy analysis conducted by The Policy Practice and commissioned by the Targeting Natural Resource Corruption project for WWF-Ukraine. The analysis examined how corruption might inhibit green, equitable and sustainable reconstruction in Ukraine, the drivers of this corruption and the political opportunities for tackling it.

We workshopped these research questions and approach with the WWF Ukraine office, deciding to focus on three key sectors: forestry, agriculture and energy.

We conducted a literature review and interviewed 29 key informants and then presented and validated our findings to WWF and a group of Ukrainian stakeholders. Our workshops and interviews took place during one of the worst periods of the Russian bombardment of Ukrainian cities. It was remarkable that our Ukraine-based interviewees and team members could engage so much with this research under such extreme circumstances. Among environmental activists, there is a strong commitment to winning the peace as well as winning the war.

WWF Ukraine was an active partner in producing the analysis and has used it to strengthen its advocacy strategy and to boost its cooperation with anti-corruption non-governmental organisations (NGOs) and government agencies that fight corruption. Part of the research was presented at a WWF-hosted event for key European stakeholders that can be viewed [here](#) (beginning 48 minutes into the event).

¹ Ukraine's economy is primarily driven by the export of resources, with 54% of its exports consisting of low added-value goods.

2. What are the political factors that will affect a green reconstruction in Ukraine?

Green and sustainable reconstruction will need to confront some vested interests.

Ukraine's economy has been dominated by powerful financial-industrial interest groups since the late 1990s, and there are fears that some of these will try to dominate and set the tone for reconstruction. With their bases in energy, industry and finance, these groups have monopolised key economic sectors, including the media, and exerted undue influence on, or captured, key governance institutions; in some cases, members of these groups have become politicians themselves. They have been connected to some grand-scale corruption scandals over the past 30 years, and they have repeatedly sought to undermine anti-corruption institutions. The dominance of these groups has also undermined government policy planning and implementation capacities – a weakness that can still be seen in the government's energy recovery plan, which lacks the detail needed to match the ambition of the government's green energy commitments. Finally, even where they were not politically pro-Russian, these business interests were used by Russia for decades to keep Ukraine in Russia's economic sphere of influence, because they depended on the import of Russian gas.

The role of these interest groups in reconstruction will have significant implications for green development in Ukraine, as well as for good governance. Even in sectors where the largest financial industrial groups are not directly involved, such as forestry, their business model has facilitated the corruption and exploitation of protected natural resources, by undermining good natural resource governance and anti-corruption institutions across the board. This business model is inimical to green and sustainable economic development for two main reasons. First, it has been based on extracting the maximum possible rents from natural resources in key polluting sectors such as energy and industry (often relying in the past on obsolete Soviet infrastructure and technology). Second, it relies on weakening good policy-making and checks on corruption across the board.

At the same time, the war has shifted the relative power of different actors, and it is still unclear how these changes will pan out in the medium and longer term. The war has weakened many of the powerful financial-industrial groups we mention above – through loss of and damage to their assets, loss of their media platforms thanks to wartime media measures and, for some groups and individuals, the president's ongoing 'deloligarchisation' policy. Some analysts have enthusiastically predicted that this may signal the end of the economic and political dominance of these groups in Ukraine – predictions that our research suggests are much too optimistic. While some old financial-industrial players may irrevocably lose their power and influence, there are signs that new players may emerge using the same old business model.

Alongside the surviving established financial-industrial groups, these new actors' influence on the pace and direction of the recovery could be decisive. In fact, the danger is that some of the ingredients that allowed the emergence of Ukraine's original financial-industrial groups in the 1990s could be present again in slightly reconfigured forms during reconstruction. These include blurred lines between the resources of private actors and influential political parties; undue influence by private actors on state processes and institutions, including state-owned enterprises; the use of monopoly status in the sale or resale of goods urgently needed on the local market; and the manipulation of competitive tender or privatisation processes, etc. Of course, it is also perfectly possible – even likely – that financial-industrial groups will embrace some green technologies and infrastructure during recovery, bringing with it the risk that they will capture some such technologies and undermine competition. Overall, it is highly likely that these actors will continue to prioritise their own interests over the development of sustainable natural resource governance in the interests of the nation.

There is concern that trends towards centralised government as part of the war effort may be hard to reverse. President Zelensky and his office have acquired significant new powers since Russia's full-scale invasion of Ukraine, as necessary under martial law. However, in the post-war context, these may be hard to reverse, especially given pre-war trends towards strengthening the 'vertical of power' – or the concentration of powers around the presidency. In the longer term, this may exacerbate tensions in post-war Ukraine, for example between central and municipal governments. Other national security measures, such as the closure of Ukraine's open data platforms, which were created as part of the post-2014 reforms and are absolutely critical to the work of anti-corruption NGOs and investigators, may also stay in place longer than necessary. President Zelensky has seen a significant boost in international and public opinion since the start of the full-scale war – but this is not guaranteed to last. In the longer term, his standing and that of his government will be affected by the effectiveness of the reconstruction, as well as Ukraine's results effectiveness on the battlefield.

Civil society will be a strong force for reform. Just as some of the factors that have inhibited reform in the past may be present again during reconstruction, so will some of those that have spurred Ukraine's most accelerated moments of reform. Civil society activism has been a key ingredient in boosting anti-corruption reform, for example in the run-up to, and aftermath of, the Euromaidan Revolution of Dignity in 2013–2014. A January 2023 [survey](#) of civil society organisations (CSOs) found that 71% of Kyiv and regional CSOs viewed modernisation of state institutions as a priority in reconstruction, and there was a strong focus on the environment among regional CSOs, with 51% identifying environmental recovery as a priority.

CSOs are of course affected by the war – with many operating at reduced capacity. But the war has also seen a dramatic increase in civic activism to support the war effort and grassroots citizen activism and organisations will likely be a strong role post-war actor. A significant role for civil society was much emphasised in the Recovery Conference in London in June 2023. As in other development and reconstruction contexts, donors will need to be careful that they are supporting genuine CSOs. In the past, some have been co-opted by government or private interests in Ukraine, as uncovered by the [Hidden Interests project](#), in which civic activists identified large numbers of ‘non-governmental organisations’ functioning in Kyiv that were actually owned by members of the Kyiv City Council.

3. Conclusions and recommendations

While the main threat to green and sustainable reconstruction is, of course, the ongoing war, Ukraine’s major reform priorities are all political economy challenges. It is vested economic and political factors that have long stalled some of the most important reforms for environmental protection, from judicial reform to ensure accountability for abuses to corporate governance reforms in Ukrainian state-owned enterprises that are critical in the energy and forestry sectors. It is also the powerful alignment of political economy factors that have boosted Ukraine’s most reformist moments in the past, such as the combination of civil society demand, the motivation for closer relations with (and now accession to) the EU and the encouragement – or sometimes conditionality – of international partners.

The scale of the ongoing damage means that reconstruction will have to deal with a very difficult balance between urgent decision-making and strategic planning, all within the constraints of available resources and funds. Given this urgency, it is sometimes difficult to make the case for a political economy analysis. But an **understanding the configuration not only of capacities but also of the interests and motivations of the key public, private and third sector actors involved continues to be critical** to ensuring the effective use of scarce resources to support a truly transformative and sustainable recovery.

Anti-corruption and environmental agendas need to be more joined up. One of our key conclusions is that governance and anti-corruption on the one hand and environmental justice on the other are often seen as separate, even siloed, domains in Ukraine. During past periods of anti-corruption and governance reform activity in Ukraine, such as after 2014, natural resource governance and the environmental sector have not been seen as priorities. But corruption in Ukraine has been driven largely by exploitation of the same resources that pollute and degrade the environment. If a green recovery is truly a priority for Ukraine, then the environmental sector should be seen as a key part of national governance and anti-corruption reform priorities. A truly green reconstruction that protects key natural

and environmental resources from depletion for short-term private gain would also help change the business model that has fuelled corruption in Ukraine since its independence.

Citizen and community involvement in reconstruction will be key, and should be a major focus of the 2024 recovery conference in Germany. As a counterbalance to centralised reconstruction approaches, with their large-scale corruption risks, reconstruction will need to include some decentralised approaches, in which communities can select and also help implement projects. Ukraine's decentralisation reforms launched in 2014 provide a platform to involve communities in decision-making, design, delivery and monitoring service delivery and community infrastructure. Because decentralised approaches have their own decentralised corruption risks, this should be accompanied by support to civic anti-corruption initiatives, networks and coalitions outside Kyiv. Decentralised reconstruction could be particularly promising in two of our focal sectors, where community initiatives during war have provided potential models for future projects and programmes.

In agriculture – which has been badly damaged by the war – **smallholder self-help and initiatives to support the army and internally displaced persons with food have shown the potential of rural civil society.** This has taken place in a sector dominated by very large agro-holdings that have long influenced agricultural policies to the detriment of small and medium-sized producers. This could be the foundation for projects and programmes focused on smaller agricultural producers, including through better access to finance.

In energy, **rooftop solar panels and ground-mounted solar installations put in place during the conflict have supported neighbourhoods, and boosted the case for household and energy cooperative 'prosumption'.** This could be part of a broader focus on decentralised energy generation sources to improve the security of Ukraine's energy supply, including smart grids at district level, and investments in district heating.

Forestry was the one sector without these models for future recovery projects, but the local and community level will still be vital. The war has significantly amplified the risks to forests and the critical ecosystem services they provide, including water supply and climate stabilisation. Ukraine's forestry sector provides vital raw material for construction and energy generation, and demand for wood is rising, as is the profitability of logging. Illegal logging is increasing because the ability of government institutions and CSOs to control it is currently restricted. As well as an effective planning and monitoring system, **analysts have long been calling for more platforms to engage forest communities on forestry policy and governance, and on biodiversity conservation.**

About this Policy Brief, The Policy Practice and Targeting Natural Resource Corruption

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This paper is part of a series of Policy Briefs that share our insights in a changing world.

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