

Strategy for Sweden's reconstruction and reform cooperation with Ukraine 2023– 2027



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1. Direction

On 24 February 2022, Russia launched an unprovoked and illegal full-scale invasion of Ukraine. Russia's aggression against Ukraine, which began in 2014, is incompatible with the rules-based international order and in violation of the prohibition of the use of force – a fundamental principle of international law enshrined in the UN Charter. Ukraine has demonstrated great resilience and leadership, and it is of the utmost importance that Sweden, the EU and the international community support Ukraine for as long as necessary.

This strategy is part of Sweden's overall development cooperation and foreign policy and will contribute to Ukraine's reconstruction and reform efforts between 13 July 2023 and 31 December 2027. Reconstruction and reform are two mutually reinforcing components that together constitute the objective of the strategy and contribute to the overall objective of EU integration. Reconstruction and reform efforts will strengthen Ukraine's continued development and ability to deal with the consequences of Russia's aggression. EU integration is also a key driver for Ukraine's continued reform efforts.

Reconstruction and reform efforts need to benefit the people of Ukraine and strengthen democratic institutions and Ukraine's ability to align with the EU's acquis. By the end of the strategy period, Swedish support will have contributed to a freer, more resilient and economically prosperous Ukraine on its way to EU membership.

The strategy comprises a total of SEK 9 billion between 13 July 2023 and 31 December 2027, of which SEK 8.02 billion is intended for the Swedish International Development Cooperation Agency (Sida), SEK 255 million is intended for the Swedish Institute (SI), and SEK 75 million is intended for the Folke Bernadotte Academy (FBA). A further SEK 650 million will be distributed for activities of relevant agencies as instructed by the Government.

This strategy governs the use of funds allocated under expenditure area 7, (International development cooperation) appropriation 1:1 'Development assistance', appropriation item 23 Reform Cooperation with Eastern Europe, the Western Balkans and Türkiye in the appropriation directions for Sida and SI for each budget year, funds allocated under appropriation item 21 Reform Cooperation with Eastern Europe, the Western Balkans and Türkiye in the appropriation directions for SI for each budget year, funds allocated under appropriation item 1:1.4 'Development assistance' and 1.4.1 'Folke

Bernadotte Academy' concerning administrative costs in the appropriation directions for the FBA for each budget year.

The objective of Sweden's international development cooperation is to create conditions to improve the lives of people living in poverty and oppression. Development cooperation is based on the principles of aid and development effectiveness, the 2030 Agenda, the Addis Ababa Action Agenda and the Paris Agreement.

The objectives included in the strategy aim to support Ukraine's reconstruction and reform efforts in a way that responds to the country's needs and priorities, and harnesses Sweden's added value as a donor. Ukraine's needs and priorities are expressed in Ukraine's Recovery Plan for 2022–2032 and in the assessment of the reconstruction needs carried out by the World Bank, the Government of Ukraine, the EU, and the UN covering the period 2023–2033. In addition, the objectives are based on dialogue that has taken place between Ukrainian and Swedish representatives since the start of the full-scale invasion in 2022, and on Ukraine and Sweden's effective reform cooperation over the past 25 years. Finally, the objectives are based on Swedish development cooperation policy priorities and input from Sida, SI and the FBA.

Sida's activities will contribute to Ukraine's EU integration through support for the following objectives:

Reconstruction

- Reconstruction and development of critical infrastructure in sectors such as energy, transport, and water supply.
- Reconstruction and development of basic public services in sectors such as health, education, and strengthened social protection systems.
- Rehabilitation and improved health for prioritised groups such as children, young people, persons with disability, and older people.

Green transition and sustainable development

- Increased access to fossil-free energy and improved energy efficiency.
- Improved conditions for environmentally sustainable and climate resilient reconstruction and development.

- Reduced environmental and climate impact, and increased adaptability and resilience.

Sida's and SI's activities will contribute to Ukraine's EU integration through support for the following objectives:

Inclusive economic development, enterprise, and trade

- Improved conditions for enterprise and entrepreneurship, and free and rules-based trade.
- Improved conditions for increased transparency and reduced corruption in the Ukrainian economy.
- Improved livelihood opportunities in Ukraine

Sida and FBA activities will contribute to Ukraine's EU integration through support for the following objectives:

Security and stabilisation

- Strengthened ability to deal with security-related consequences of Russia's aggression and prevent destabilisation.
- Durable solutions for internally displaced persons and their host communities, and improved conditions for safe and durable return.
- Improved conditions for reintegration of ex-combatants.

Sida, SI and FBA activities will contribute to Ukraine's EU integration through support for the following objectives:

Human rights, democracy, the rule of law, and gender equality

- Stronger democratic governance and greater respect for human rights and the rule of law.
- Improved conditions for accountability, increased transparency and reduced corruption in society as a whole.
- Better prospects for a gender-equal society.

2. Country context

Since gaining independence in 1991, Ukraine has implemented reforms and pursued state-building and institutional consolidation. This has made Ukraine freer and more democratic, and brought it closer to the EU. Work to strengthen local self-government has been particularly important. Russia exerts various forms of pressure to destabilise Ukraine and undermine its development, and Ukraine's democratic institutions are currently operating in a very challenging context.

Russia's full-scale invasion of Ukraine launched in February 2022 has caused widespread destruction, human suffering, and a serious deterioration of the humanitarian situation, forcing millions of people to flee. The most pressing humanitarian needs are often concentrated in areas along the front line, in areas temporarily occupied by Russia or in areas liberated by Ukraine. The situation is also difficult for internally displaced persons living in temporary accommodation.¹

One year after the full-scale invasion was launched, an estimated 68 000 war crimes had been committed, including 2 600 against children. Moreover, it is estimated that more than 140 000 people, including 16 000 children, have been deported or forcibly relocated to Russia and areas temporarily occupied by Russia.²

It is estimated that approximately three million people in Ukraine have a disability, and the figure is expected to increase dramatically due to the number of Ukrainian veterans and civilians injured in the war. The total number of veterans is expected to triple from approximately one million to three million, and the situation for them and their families is often challenging. Women are particularly exposed to risks such as limited livelihood opportunities and sexual and gender-based violence.³ Other vulnerable groups include children, young people, older people, minorities, LGBTIQ+ people, and people living in institutions and in rural areas.⁴ The psychosocial impact of the full-scale invasion is expected to be immense. An

¹ Humanitarian Needs Overview 2023, the UN Office for Coordination of Humanitarian Affairs, December 2022.

² Ukraine Rapid Damage and Needs Assessment February 2022 – February 2023, World Bank, et al., March 2023.

³ Ibid.

⁴ Humanitarian Needs Overview 2023, the UN Office for Coordination of Humanitarian Affairs, December 2022

estimated 10 million people in Ukraine are at risk of developing some form of mental health condition.⁵

The total damage caused during the first year of the full-scale invasion is estimated at USD 135 billion. In addition, loss of income during the first year of the full-scale invasion is estimated at USD 290 billion, and reconstruction costs for 2023–2033 are estimated at USD 411 billion.⁶ Reconstruction needs exist throughout society, but are especially acute in sectors such as housing, critical infrastructure, energy, trade and employment. Reconstruction needs will reach an estimated USD 128 billion in 2023–2026 and USD 283 billion in 2027–2033. Estimates are regularly updated, and the longer the war continues, the more these costs are expected to increase.

The invasion has caused extensive contamination. Mines and explosive remnants have affected an estimated 25 per cent of Ukraine's territory. This poses a threat to human security and limits the prospects for reconstruction and productive employment, not least in the agricultural sector. Environmental and climate impacts are significant, including environmental damage from human-caused environmental disasters and the massive amounts of rubble from destroyed buildings and infrastructure that need to be dealt with and recycled. The invasion also poses a serious threat to radiation safety in the country.⁷

Liquidity support, primarily from the EU, the US and international financial institutions, has been crucial to cover Ukraine's budget deficit. It is likely that the situation will require continued liquidity support for a long time to come. In addition, poverty in Ukraine has risen substantially, increasing from 5.5 per cent in 2021 to 24.1 per cent in 2022 (an increase of 7.1 million people) and reversing 15 years of progress.⁸

Corruption is an obstacle to economic and social development, private investments, and integration into the EU. In January 2023, Transparency International ranked Ukraine 116 out of 180 countries in its Corruption Perceptions Index but, at the same time, noted that significant progress has been made in the past decade.⁹ Moreover, this positive trend has continued

⁵ Ukraine Rapid Damage and Needs Assessment February 2022 – February 2023, World Bank, et al., March 2023.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Transparency International, February 2023.

since – and despite – Russia’s full-scale invasion, and is strengthened by EU integration efforts. Reform cooperation will contribute to continued positive developments in this area. Activities need to be designed with particular care to ensure that public funds are protected from embezzlement or other irregularities.

In July 2022, the Ukrainian Government presented Ukraine’s National Recovery Plan for 2022–2032. The plan specifies priorities for 24 sectors to increase Ukraine’s resilience and build back better with the overall objective of EU integration.¹⁰ For several years, EU membership has been among Ukraine’s primary political and economic objectives. An Association Agreement, including a Deep and Comprehensive Free Trade Area, between the EU and Ukraine entered into force in 2017, and Ukraine was granted candidate status in June 2022. Sweden has been a significant partner to Ukraine through its support to the country’s reform efforts; this will remain important during the 2023–2027 strategy period as regards both reconstruction and EU integration.

Sweden is strongly engaged in Ukraine’s reconstruction and development. Several government agencies and state actors are specifically tasked with contributing to reconstruction efforts. These include Sida, SI, the FBA, the Swedish Board for Accreditation and Conformity Assessment (Swedac), Business Sweden, the National Board of Trade, the Swedish Radiation Safety Agency, the National Board of Health and Welfare, and the Medical Products Agency. The Swedish Civil Contingencies Agency (MSB) coordinates civilian operations within the framework of the EU Civil Protection mechanism and through the UN system. The Agency also contributes equipment to deal with mines and explosive remnants. The business sector, civil society, municipal and regional authorities, and higher education, research and cultural institutions also contribute in various ways. Continuous dialogue between these actors is important for successful support to Ukraine’s reconstruction and reform efforts.

The Swedish business community has much to contribute to Ukraine’s reconstruction and development and is world-leading in key areas such as digital solutions and the green transition. Business engagement can help strengthen Ukraine’s economic development and its role as a trade partner, not least to the EU.

¹⁰ Ukraine’s National Recovery Plan, July 2022.

3. Activities

Sida, SI and the FBA will carry out, monitor, and report on activities in accordance with the Government's guidelines for Swedish development cooperation and humanitarian assistance strategies (UD2017/21053). The guidelines state that analysis, learning and transfer of knowledge should be an integral part of Sweden's development cooperation. The annual strategy report shall be comprehensive and include an account, analysis, and assessment of the results of the activities in relation to the stated objectives. Where possible, data shall be sex disaggregated. Information on results shall be used for decision-making, learning and accountability, and for ensuring transparency towards the general public. This is particularly relevant in light of Sweden's broad commitments to provide support to Ukraine, the difficult situation in the country and the public interest. Monitoring shall provide reliable and useful performance information in both the short and long term by using both qualitative and quantitative information where possible. Results monitoring shall primarily establish whether activities have made a difference, in what way and for whom. Based on the existing conditions, monitoring shall indicate the extent to which the development cooperation has made a difference. Sweden's development cooperation shall respond to concrete needs and be result-oriented and effective.

In light of Sweden's broad commitment to support Ukraine and the changing circumstances, Sida, SI and the FBA shall maintain a continuous dialogue with the Ministry for Foreign Affairs on this strategy's implementation, including in relation to development cooperation priorities and the links between development cooperation and trade.

Reconstruction and reform efforts shall contribute to sustainable development based on the 2030 Agenda, the financing for development commitments under the Addis Ababa Action Agenda and the Paris Climate Agreement. The activities' contributions are relevant to all of the sustainable development goals (SDGs) of the 2030 Agenda. Strategy reports to the Government shall include references to how activities contribute to implementation of the 2030 Agenda in relation to the strategy's priorities.

This strategy aims to contribute to reconstruction and reform efforts in Ukraine in a way that makes the country freer, more secure, greener, more democratic, resilient, and economically prosperous. For this reason, the strategy does not aim to restore Ukraine to what it was before Russia's aggression, but rather to contribute to its development and EU integration. These efforts are already under way and cannot wait until Russia's aggression

has ended. They also contribute to strengthening security and creating conditions for Ukraine to win the peace.

Reconstruction and reform efforts are two mutually reinforcing components that together contribute to EU integration. These components shall inform the implementation of this strategy in all areas.

In the area of ‘reconstruction’, support for critical infrastructure should be provided in sectors such as energy, radiation safety, transport, and water supply. Support for basic public services should be provided in sectors such as health care and contribute to stronger social protection systems. Support in the education sector should also be prioritised to enable children and young people to return to education. Activities shall also contribute to rehabilitation and improved physical and mental health for prioritised groups such as children, young people, persons with disability and older people. Activities may need to be adapted as the situation develops.

In the area ‘green transition and sustainable development’, support for sustainable waste management shall be prioritised. Ukraine has requested that Sweden lead the coordination of international support in this area. There is a need for managing and recycling of material from destroyed buildings and infrastructure, and for long-term modernisation of the waste management system in Ukraine. For this reason, capacity-strengthening investments and reforms should take place simultaneously. Support for a green transition in Ukraine shall also contribute to increasing access to fossil-free energy, improving energy efficiency, and creating the conditions for the sustainable use of natural resources. This support shall also contribute to reducing environmental and climate impact and pollution, and to strengthening Ukraine’s adaptability and resilience in light of climate change and the environmental damage caused by Russia’s aggression.

In the area ‘inclusive economic development, enterprise and trade’, activities shall contribute to mobilising and coordinating the broad and extensive support for reconstruction that is needed in the form of private investments. Companies play an important role in their capacity as employers and engines for growth. Activities shall therefore contribute to a stronger enterprise and investment climate that promotes entrepreneurship and strengthens conditions for trade, not least with the EU and with a special focus on small- and medium-sized enterprises. Activities shall also contribute to advanced value chains, productive employment, and decent working conditions, and to strengthen confidence in the Ukrainian economy. To realise the potential of

trade and enterprise, a variety of instruments for risk-sharing should be used when conditions allow. These include guarantees for generating catalytic effects. The support shall aim to complement activities in expenditure area 24 (Industry and trade).

In the area ‘security and stabilisation’, activities shall contribute to preventing the destabilisation of Ukrainian society. They shall also contribute to dealing with mines and explosive remnants, which may be both on land and at sea. Support should also be provided in areas such as strengthening cyber security and combating organised crime and the illicit proliferation of small arms and light weapons. Activities will contribute to strengthening social cohesion and access to psychosocial support. They shall also contribute to reducing the risk of sexual and gender-based violence and oppression, and to ensuring that survivors have access to support and protection. These efforts should take particular account of the risk of human trafficking and exploitation. Priority shall be given to the reintegration of ex-combatants and their families. Finally, support shall be given to promote sustainable solutions for internally displaced persons and their host communities, and to strengthen the conditions for safe and durable return – including from other countries.

In the area ‘human rights, democracy, the rule of law and gender equality’, activities shall contribute to strengthening democratic institutions and an accountable, independent, and more efficient public administration at national and local level. Support for local and regional self-government is especially important, as it has been a catalyst for Ukraine’s development and helped to strengthen the country’s resilience. Activities shall also contribute to free and independent media, and access to information in society. In addition, activities shall aim to strengthen Ukraine’s justice system and, in this context, support for investigations of war crimes and other crimes committed in connection with Russia’s aggression should be considered. A consistent priority shall be to create conditions for increased transparency and a reduced risk of corruption, helping to build on Ukraine’s progress in these areas. In addition, activities will aim to strengthen civil society’s role in continued reconstruction and reform efforts, not least by contributing to accountability and justice. This includes support to human rights defenders. Support to academic institutions and cultural actors should also be considered, including for the protection and preservation of cultural heritage. In addition, activities shall contribute to strengthening women’s economic empowerment and ability to contribute to the reconstruction work, and strengthening access to sexual and reproductive health and rights.

Sweden's and Ukraine's national action plans for implementation of the women, peace and security agenda should be taken into consideration. Particular consideration should also be given to vulnerable people, and to excluded and discriminated groups.

Digital transformation is a high-profile issue for Sweden that shall be an integral part of this strategy's implementation. Continued support for Ukraine's digital transformation is expected to provide opportunities to contribute to progress on several of this strategy's objectives.

For Sweden's part, it is important that the Team Europe approach and close cooperation with international partners continue to shape the support that is provided. International financial institutions such as the International Monetary Fund, the World Bank Group, the European Bank for Reconstruction and Development, the European Investment Bank and the Nordic Environment Finance Corporation will also be important actors and shall be given particular consideration in the strategy's implementation. These institutions contribute to macro-financial stability and long-term sustainable development, stimulate investments, and strengthen reform efforts related to all the strategy objectives. Finally, the UN and the OECD are also important actors in the reconstruction and reform efforts. The implementation of the strategy should aim to contribute to synergies with Sweden's multilateral engagement in these institutions and organisations. Corruption risks shall be given particular consideration in this context.

The implementation of the strategy shall contribute to strengthening Ukraine's resilience. This means that support should respond to immediate needs in a way that complements humanitarian activities and promotes synergies, without undermining a needs-based humanitarian approach based on the humanitarian principles of impartiality, independence, neutrality and humanity.

This strategy is a central component of Sweden's support to Ukraine in expenditure area 7. The support shall complement support from other government agencies and multilateral organisations, and in other expenditure areas. It shall also be coordinated with other bilateral, regional, and multilateral donors, including through international coordination mechanisms. EU cooperation is especially important, and the Swedish support shall harmonise with EU support where possible, not least with the support provided by the European Commission.

The Strategy for Sweden's reform cooperation with Eastern Europe for 2021–2027 governs the regional reform cooperation with Ukraine. Implementation of this strategy shall aim to complement and contribute to synergies with the regional activities supported within this strategy and other relevant strategies where applicable. Links to the Eastern Partnership shall be harnessed.