



Corruption and Private Sector Investment in Ukraine's Reconstruction

By Andrew Lohsen and Nick Fenton

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THE ISSUE

The aim of the bipartisan and international [CSIS Ukraine Economic Reconstruction Commission](#) is to produce a policy framework that will help attract private sector investments to support Ukraine's future economic reconstruction. To support the commission, CSIS will convene a series of working groups to examine a range of issue-specific areas that are critical for reconstruction and modernization of the Ukrainian economy, including in agriculture, energy, and transportation and logistics, as well as addressing the impact of corruption on private sector investment.

Ukraine experienced significant human and economic losses in the first six months of Russia's unprovoked invasion. In July 2022, the Ukrainian government [estimated the cost of recovery at \\$750 billion](#). That figure continues to grow due to ongoing missile strikes and artillery shelling, population displacement, and disruptions of exports. Given the scale of Ukraine's losses, private sector investment will be critical to the country's recovery and transformation. But concerns about corruption threaten the flow of much-needed funds. Ukraine has undertaken significant anti-corruption reforms in recent years, but it will need to show additional progress to maximize the potential for foreign investment.

DRIVERS OF HIGH CORRUPTION PERCEPTIONS

Ukraine is burdened by perceptions of endemic corruption, as reflected by its [persistently low score](#) relative to other European states on Transparency International's Corruption Perceptions Index (CPI). Corruption researchers have cautioned that such surveys have only limited application, as they do not provide an objective overview of the corruption experience in each country, only perceptions of the extent of corruption. Nevertheless, they are important to conversations about reconstruction in Ukraine because they provide insight into potential barriers to investment. Investors may be deterred if they

believe they must contend with unscrupulous rent-seeking officials, compete on an uneven playing field with actors who use bribes or kickbacks, or rely on a flawed judiciary to protect their rights.

Results from [annual investor sentiment surveys](#) reinforce the idea that Ukraine must address corruption and concerns about its rule of law. Since 2016, investors have ranked widespread corruption and mistrust of the judiciary as the top two obstacles to foreign investment in Ukraine. Moreover, the International Republican Institute in its [2021 public opinion survey](#), conducted prior to the conflict, found that Ukrainians ranked corruption within state bodies as the most important issue facing the country and the third-most important issue facing them personally.

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The drivers of perceptions of persistent corruption in Ukraine have been the subject of intense debate but generally are linked to a few key phenomena:

- **Oligarchic influence.** For decades, a small group of elites have dominated Ukraine's political system and economy. These elites have used their vast resources to subvert governing institutions and steer policies to their benefit, irrespective of the harm caused to society. While individual oligarchs' fortunes and power have been subject to change, a durable core of oligarchs has exercised so much influence on the country that **European auditors declared in 2021** that oligarchs and vested interests were the main obstacles to Ukraine's economic development. In the months before Russia's invasion, political analysts warned that **oligarchs were once again strengthening their position**, despite President Volodymyr Zelensky's promises to reduce their role in domestic politics.
- **Capture of the judiciary.** Following the Revolution of Dignity in 2013–14, Ukraine undertook Western-backed reforms to promote the independence of the judiciary, but these efforts backfired by failing to account for corrupt judges already in the system. Until recently, judges themselves selected judicial nominees, which meant that compromised judges could maintain the status quo by preventing honest actors from entering the system. Meanwhile, the highest judicial governance body in Ukraine repeatedly obstructed efforts to remove tainted judges from their positions. The situation came to a head when the lead judge of a notoriously compromised court was recorded **bragging about the court's "political prostitution"** and conspiring to bring down the government. A questionable Constitutional Court decision threatened to invalidate the legal basis for Ukraine's anti-corruption institutions, **resulting in a constitutional crisis**. Positive signs include the passage of legislation to reform the High Council of Justice (HCJ) by ensuring independent foreign experts participate in Ethics Council decisions and the relaunch of the High Qualification Commission of Judges (HQCJ), which was dissolved in November 2019. However, Ukraine has a history of failing to implement legislation targeting vested interests.
- **Undermining of anti-corruption bodies.** Since 2014, Ukraine has established an array of specialized institutions to prevent, detect, investigate, and prosecute government corruption, as well as recover and manage funds stolen from the state. However, many of these institutions have been hamstrung by interference from vested interests and, thus, have struggled to perform their duties free of political influence. This problem has manifested in several ways. First, successive presidential administrations have sought to install loyalists at the helm of these institutions over the objections of civil society representatives and international experts who doubt their impartiality or qualifications. In some cases, the nominees faced allegations of professional misconduct or troublesome connections to oligarchs. To convince the government to make selections transparently, fairly, and in accordance with established procedures, international donors and financial institutions have applied conditions to the allocation of financial assistance, but several key positions remain vacant. Moreover, linkages between key anti-corruption institutions and unreformed bodies staffed by political appointees have generated opportunities for meddling; in one notorious example, the Prosecutor General's Office reportedly **derailed one of the National Anti-Corruption Bureau's most high-profile investigations**. Anti-corruption bodies also have faced attempts to remove critical elements of their mission through draft legislation. **Recent improvements** have been made to strengthen the independence of these bodies, but Ukraine still suffers reputational costs from the complicated history of gains and reversals with regard to its anti-corruption institutions.
- **Strategic corruption.** The practice of strategic corruption—the weaponization of bribery, graft, and corrupt practices to destabilize competitors and achieve one's own foreign policy goals—has for years been an important component of Russia's strategy to keep Ukraine within its zone of influence. According to a **report published by the United States Institute of Peace**, Russia used its fossil fuel riches to enhance the standing and wealth of certain Ukrainian oligarchs, helping them build business empires, media holdings, and political networks. This has provided Russia a platform to shape opinions within Ukraine and promote policies in the Kremlin's interest. Russia also amplifies narratives about corruption in Ukraine to sow cynicism and disunity internally and propagate the idea that

Ukraine is a failed or captured state, undermining Ukrainian efforts to integrate into Western institutions.

- **High degree of public awareness about the problem.** Paradoxically, Ukraine may suffer from perceptions of entrenched corruption because of the emphasis on governance and rule of law reforms after the Revolution of Dignity. The ouster of a notoriously corrupt president made citizens and foreigners acutely aware of the problem. Ukraine’s lack of visible progress in tackling the issue has bred cynicism and the perception that corruption is endemic to the country.

SIGNS OF ANTI-CORRUPTION PROGRESS

Ukraine has done tremendous work since 2014 to develop stronger oversight and accountability institutions and improve the transparency of certain state functions vulnerable to corruption. The government has established five anti-corruption bodies to support meaningful reform. The National Agency on Corruption Prevention (NACP) administers asset declarations for state officials. The National Anti-Corruption Bureau (NABU) investigates cases of corruption. The Specialized Anti-Corruption Prosecutor’s Office (SAPO) brings complex corruption cases before the courts. The High Anti-Corruption Court (HACC) tries cases involving corruption, money laundering, and related offenses investigated by NABU and prosecuted by SAPO.

Finally, the Asset Recovery and Management Agency (ARMA) tracks and seizes or repatriates stolen state assets.

Ukraine has embraced the idea of “**radical openness**” as part of its broader campaign against corruption, maximizing the accessibility of information so that citizens are better informed about how public funds are spent and can raise questions about suspicious activities. Ukraine has integrated a domestically developed **electronic tendering system** called ProZorro into the procurement processes of nearly all state bodies, which has saved Ukraine billions of dollars by dramatically reducing opportunities for graft and illicit enrichment. The platform is widely acknowledged as a cutting-edge solution that, in many ways, surpasses analogous systems used in the United States and other advanced economies. Ukraine has also developed systems for the sale or lease of state property (**Prozorro.Sale**) according to uniform rules for providing feedback about procurements and alerting authorities of procedural or legal violations (**DoZorro**).

Broader reforms such as digitization of government services and decentralization, underway since shortly after the Revolution of Dignity, have also helped enhance transparency and accountability, reducing corruption risks in service delivery. Digitization has mitigated some of the technical vulnerabilities that have enabled corruption to thrive. For example, the mobile application

Government Anti-corruption Institutions in Ukraine



National Agency on Corruption Prevention (NACP)

Administers asset declarations for state officials



National Anti-Corruption Bureau (NABU)

Investigates cases of corruption



Specialized Anti-Corruption Prosecutor’s Office (SAPO)

Brings complex corruption assets before the courts



High Anti-Corruption Court (HACC)

Tries cases involving corruption, money laundering, and other related offenses that are investigated by NABU and prosecuted by SAPO



Asset Recovery and Management Agency (ARMA)

Tracks and seizes or repatriates stolen state assets

Source: Authors’ research based on multiple sources.

and website Diia has allowed citizens to **access dozens of administrative services** over the internet, increasing administrative efficiency and reducing the role of public officials who might otherwise seek or accept “facilitation payments,” or bribes, to perform the same task. In the judicial sector, digitization has introduced randomness into the assignment of court cases, making it harder for compromised senior members of the judiciary to hand sensitive cases to other corrupt judges. Meanwhile, decentralization has enabled citizens to exercise more influence over how municipal and regional authorities spend their taxes, and it has improved their capacity to monitor public spending for waste, fraud, and abuse. Of course, these reforms are not a silver bullet: dishonest members of the judiciary have **found ways to beat the automated case allocation systems**. Nonetheless, they help create the foundation for long-term improvements in government accountability and integrity.

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Finally, Ukraine has a highly motivated civil society sector whose members have played a major role in developing, promoting, and improving grassroots efforts to develop transparent and responsible institutions and to hold corrupt officials accountable. The country’s network of anti-corruption organizations and activists extends well beyond the capital. Many regions and municipalities in Ukraine have anti-corruption nongovernmental organizations (NGOs) working to promote integrity and counter malfeasance at the local level. While **sustainability is a challenge** for many organizations in the region, they help promote awareness and advocacy around corruption as an issue that affects all Ukrainians. Moreover, they play an increasingly important role in civic oversight of newly decentralized budgets. Ukraine also has a world-class cohort of investigative journalists who are well versed in corruption trends, institutional vulnerabilities, and informal influence networks; are skilled at following the money to reveal illicit schemes; and understand how to convey complicated

information to broad audiences. Unfortunately, harassment and threats to personal safety are not uncommon, and **additional safeguards are needed** to protect their well-being. Yet, despite these risks, investigative journalists and anti-corruption activists continue to shine a light on the corruption situation in Ukraine and establish a strong foundation for bottom-up accountability.

THE EFFECT OF THE WAR ON CORRUPTION IN UKRAINE

Russia’s invasion has fundamentally altered the status quo in Ukraine, generating new risks and opportunities for the fight against corruption and the country’s broader political-economic trajectory. The invasion has substantially affected Ukraine’s oligarchs. Destruction or loss of control over assets in conflict-affected areas, labor shortages caused by mobilization and displacement, and disruption of logistics chains have contributed to **widespread decline in oligarchs’ wealth** since January 2022, depriving them of resources to bankroll their allies’ political campaigns and maintain media empires that serve their interests. Politically, the space for oligarchs to maneuver has narrowed; most have fallen in line behind Zelensky during this critical moment and are **supporting the fight to preserve Ukraine’s sovereignty**. Presumably, they understand a successful Russian invasion would result in the takeover and redistribution of their assets to Vladimir Putin’s cronies. Meanwhile, displays of patriotism are de rigueur. Many oligarchs have pledged to support Ukraine’s reconstruction, perhaps seeking to bolster their public image during uncertain times and anchor their presence in postwar Ukraine. Yet, it is unclear whether the country’s oligarchs will **retain the same degree of influence** they had before the full-scale invasion, particularly as the Zelensky administration proceeds with implementation of a **law on “deoligarchization,”** which was signed in November 2021.

The broadening of support for Ukraine from its Euro-Atlantic partners has spurred progress on anti-corruption reforms. When Ukraine received EU candidate status in June 2022, the European Commission stated Ukraine would need to make progress on several stalled governance reforms to remain on the path to accession. In the following weeks, Ukraine took steps such as emplacing the head of SAPO after a two-year delay. Ukraine watchers saw the adoption of the 2021–25 National Anti-Corruption Strategy as a sign of the country’s willingness to implement good governance activities championed by Western supporters. As long as conditionality remains at

the center of conversations about international support for Ukraine's economic stability, recovery, and political integration with Western institutions, corruption fighters will have powerful allies to help them advance reforms and promote accountability.

However, anti-corruption researchers have also found that **war tends to exacerbate corruption risks**. Efforts to promote integrity and hold dishonest officials accountable are often deprioritized in favor of safeguarding national security. The urgency and secrecy of defense procurements and influx of foreign assistance, among other factors, create new opportunities for graft at a time when the state and civil society have diminished capacity to monitor and investigate illicit behavior. Although the main watchdog organization for defense procurements claims **no major corruption schemes have been detected** in the defense industry since Russia's full-scale invasion, and few scandals in other sectors have been reported in Ukrainian media, it is unclear if this reflects a decrease in corrupt activity or if corruption is simply escaping detection. According to a small-sample survey of Ukrainian anti-corruption experts, cited in a **2022 report by Drago Kos**, head of the Organization for Economic Cooperation and Development (OECD) Working Group on Bribery, 84 percent abandoned their activities due to the war. Meanwhile, specialized anti-corruption agencies have scaled down as their staff have joined the armed forces or territorial defense units. As long as the country remains at war with Russia, there will be considerable strain on the resources, personnel, and attention dedicated to countering corruption.

NEXT STEPS FOR UKRAINE TO FIGHT CORRUPTION AND ATTRACT INVESTMENT

Conduct deoligarchization the right way. Before the war, the Zelensky administration took steps to reduce the role of oligarchs by promoting a law on deoligarchization, which was signed in November 2021. According to the law, the National Security and Defense Council is tasked with establishing and maintaining a registry of oligarchs. If an individual meets at least **three of the four criteria** to be designated as an oligarch, that person is prohibited from funding political parties or participating in large-scale privatizations and must submit annual declarations. The law has emerged as a critical component of Ukraine's quest for Euro-Atlantic integration, as the European Commission declared in July that implementation of the anti-oligarch bill "**in a legally sound manner**" is a condition for Ukraine maintaining its candidate status. Europe's focus on

deoligarchization should provide sufficient grounds for the Zelensky administration to advance its efforts to insulate the country's political processes from its most powerful economic actors.

Indeed, the altered political landscape in Ukraine since the start of the war has created an opportunity for change, and there are early positive signs regarding deoligarchization. For example, steel magnate Rinat Akhmetov, the richest person in Ukraine before the war, recently announced plans to **transfer his media holdings** to the government to comply with the law's provisions. Ukrainian political analysts have offered **differing explanations for oligarchs' compliance** with the law, ranging from their limited capacity to lobby against it due to martial law to the belief that enforcement is inevitable after the European Union conditioned its assistance on reform. In any case, it is a positive sign that Ukraine's most influential citizens may accept a diminished political role but maintain their status as economic titans.

Temptation to use the law to settle scores or isolate political rivals will test the Zelensky administration. In the months before the war, plenty of **commentators believed the law was simply a pretext** to defang Zelensky's main rivals such as opposition parliamentarian and media magnate Viktor Medvedchuk, who is widely seen as a **fifth columnist for Putin** and was released to Russia in a **recent prisoner swap**, and former president Petro Poroshenko, who earned his fortune in the chocolate business. Zelensky and his team must ensure the law is implemented strictly as intended and that its provisions are applied without prejudice.

Ensure anti-corruption institutions are fully staffed and resourced and operate without interference. Nearly all of Ukraine's anti-corruption institutions have had to fend off attempts by vested interests to undermine their independence, mandate, or ability to perform basic functions. The leadership of these bodies has been frequently challenged—after all, honest leaders would threaten the status quo upon which corrupt actors feed—and Western supporters have been forced to intervene to prevent regressive forces from capturing the institutions. The "two steps forward, one step back" nature of the country's anti-corruption efforts has tarnished Ukraine's image as a reformer.

The Zelensky government should make a visible effort to protect and promote institutions critical to Ukraine's transition. Long-delayed selection of leaders of certain anti-corruption bodies (e.g., **NABU**) should be completed quickly and in accordance with the selection criteria

chosen by Ukrainian and international experts serving on relevant competition commissions. Attempts to manipulate the selection process should be emphatically denounced. Additionally, the cadres of these institutions should be expanded to ensure they function at a high level, even during wartime. Specialized law enforcement bodies should be given the necessary legal authority to conduct effective independent investigations.

So far, the signals from Kyiv on this matter have been mixed. While the Zelensky administration cleared the way for the rightful winner of the competition for SAPO leadership, it also selected Andriy Kostin as the country's new prosecutor general. Kostin is a Servant of the People lawmaker whom critics see as a Zelensky loyalist with a [history of disregarding asset declaration requirements](#). This could be a sign that Ukraine's political leadership is not quite ready to let leaders of anti-corruption institutions—created with substantial support from the transatlantic community—to work without interference. The selection process for the head of NABU could indicate the Zelensky administration's appetite to let anti-corruption bodies do the work they were mandated to do.

Invest in the capacities of other oversight institutions. In addition to Ukraine's various governmental organizations already tasked with rooting out corruption, Western partners need to encourage Ukrainian leadership to strengthen the country's other economic oversight institutions. The [Accounting Chamber](#), which is Ukraine's supreme audit institution, charged with oversight over public revenue and expenditure on behalf of the country's parliament, is one such organization whose anti-corruption powers could be strengthened. Similarly, the country's [Antimonopoly Committee](#) could be empowered to more aggressively break up Ukraine's state-adjacent monopolies and cartels, which exert undue influence on economic affairs.

Address concerns about judicial corruption by holding corrupt justice officials accountable and staffing the courts with independent and honest judges. A September 2021 [report by the European Court of Auditors](#) stated that “judicial reform is experiencing setbacks, anti-corruption institutions are at risk, trust in such institutions remains low, and the number of convictions resulting from grand corruption is small.” To address these issues, Ukraine's Western partners should press the government in Kyiv to fill existing vacancies on the country's HCJ and restart the HQCJ. Once this is completed, the country can move forward with the nomination, review, and selection of honest judicial candidates to serve on the country's courts.

The Zelensky administration must also reorganize courts where there are well-substantiated concerns about the integrity of members, such as in the case of the [Kyiv District Administrative Court](#). The latter imperative could be one of the most significant challenges facing Zelensky, as it is a delicate issue in terms of constitutional law and leaves his administration open to criticism, however unfair, of executive overreach. Nonetheless, anti-corruption agencies should have full reign to investigate cases of corruption and send them to the HACC for priority consideration. Any efforts to reform the judiciary must be transparent and legally sound and have broad-based coalition support. Otherwise, the process could turn into a political debacle that undermines investor confidence in the rule of law. The last thing Ukraine's investment climate needs is the executive branch taking shortcuts to weed out corrupt judges, as this risks wasting the political capital Zelensky has accumulated since the start of the war. Consulting with Western experts from the Venice Commission and similar bodies early in the process could help build confidence in the government's efforts.

Speak openly about corruption and seek support when needed. Since the outbreak of war in February, discussions of corruption have become more difficult. Criticism of Ukraine's flaws is, at times, mistaken as Russian propaganda or as an attack on the country's reputation. Silence about corruption does not make the problem go away; on the contrary, it restricts the normative space for discussion of important issues. Ukrainian officials have much to be proud of in their ongoing campaign to promote transparency and accountability and should feel empowered to speak openly about their aspirations and challenges. Ukraine's recent [application for membership](#) in the OECD Working Group on Bribery in International Business Transactions could be a positive sign of consolidating political will to address corruption concerns proactively, as Ukraine, if it joins the body, would have to undergo [regular peer-review monitoring](#) of its compliance with anti-bribery instruments.

NEXT STEPS FOR FOREIGN PARTNERS, INTERNATIONAL FINANCIAL INSTITUTIONS, AND INVESTORS TO SUPPORT UKRAINE'S ANTI-CORRUPTION EFFORTS

Ukraine's foreign partners should commit themselves to upholding high standards of integrity in the reconstruction process. Western governments and financial institutions should promote codes of conduct

among potential investors and look to other examples within the international development context for insight into how to best structure aid. Additionally, international institutions and state-backed initiatives could tie loan guarantees or other instruments for investment in Ukraine's reconstruction to a set of anti-corruption standards that businesses would have to enforce with their local partners. On July 4–5, 2022, representatives from **over 40 countries and international institutions** gathered in Lugano, Switzerland, at an international conference to support Ukraine's recovery. The **outcome document** from the conference provides a model for the codes of conduct that states and international institutions should demand of private companies that seek financial support for their investment efforts in postwar Ukraine. According to the document, participants of the Lugano conference "support the establishment of an effective coordination platform between the Government of Ukraine and all its bilateral as well as multilateral partners, organizations and international financial institutions for the preparation and implementation of Ukraine's Recovery and Development Plan, building on existing structures and establishing a clear link with the broad reform agenda." Moreover, they "affirm that integrity, transparency and accountability are essential for the successful implementation of the National Recovery and Development Plan." Of course, declaring these principles is easier than putting them into action, much less enforcing them. However, if Ukrainians are asked to meet strict anti-corruption standards for reconstruction, then Western institutions and actors should hold international businesses to the same high bar.

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Finally, Western partners should leverage the political consolidation and cultural changes that have taken place in Ukraine since the start of Russia's invasion. Ukraine's active civil society and media organizations have a clear interest in continuing to expose and criticize corruption, which threatens continued Western support. However,

questions remain about their capacity to do so when Ukraine's sovereignty is under threat and citizens are focused on national defense. As political scientist Andreas Umland pointed out, Western actors should harness their existing partnerships with Ukrainian NGOs to pressure state institutions to follow through on challenging reforms.¹ The European Union can use Ukraine's newly acquired candidate status as an incentive for dramatic political action and insist on involvement of independent NGOs in important reform processes. The possibility of Brussels either canceling or downgrading Ukraine's candidacy for EU membership based on failure to meet anti-corruption targets is a risk that Kyiv cannot ignore.

CONCLUSIONS

Ultimately, for the private sector to take an active role in Ukraine's recovery, opportunities for profit making must outweigh potential costs and risks. Put simply, if businesses do not have confidence they can earn a profit in Ukraine, they will not invest.

Of course, profitability is shaped by a number of factors beyond reducing corruption and fostering a culture of integrity. Chief among these factors is the security situation. As long as conditions in Ukraine remain volatile due to ongoing Russian missile and artillery attacks or the potential (however unlikely) for Russian territorial gains, it will be difficult for businesses to obtain insurance for their operations, dispatch staff to work in Ukraine, or justify investments in capital-intensive projects. Efforts to mitigate the security risks could play a larger role in facilitating private sector investment in Ukraine's recovery—at least in the short term—than addressing corruption. Although this challenge is beyond the scope of this issue brief, it points to two important conclusions: First, the onus is on Western governments and international financial institutions to indemnify risks associated with investing in a conflict-affected country.² Second, because it will take time to mitigate security risks, Ukraine has an opportunity to take a methodical approach to anti-corruption.

With Ukraine's future in the balance, the country's leaders and Western supporters must find a common language on corruption. As difficult as it may be—particularly as Russian forces continue to bombard civilian targets—authorities in Kyiv must recognize the anti-corruption concerns voiced by the Euro-Atlantic community, which are shaped by Ukraine's uneven historical performance on reforms. At the same time, Western supporters should look beyond

CPI scores, recognize Ukraine for the gains it has achieved since 2014, and acknowledge that Russia's policy of strategic corruption helped shape Ukraine's current position.

Still, progress in the fight against corruption is essential. Without expanded anti-corruption efforts that match the intensity of the moment, Ukraine will find it difficult to attract responsible investors who could help drive virtuous cycles of reform in the postwar period. ■

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ENDNOTES

- 1 Andreas Umland, interview with the authors, September 12, 2022.
- 2 Umland argues that one possible work-around is to set up an international insurance vehicle for private investment in Ukraine. This could be modeled on the World Bank's Multilateral Investment Guarantee Agency, which has had success supporting international investment in conflict-prone countries by providing guarantees on investments against noncommercial risks.