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IN FOCUS

Ukraine’s Recovery Has a Hidden Fault Line – and It’s Institutional

Ukraine's recovery architecture is highly sophisticated and closely monitored, but none of its tools was designed to measure whether the institutions behind it can actually function under sustained pressure. This is the hidden fault line, and closing it requires putting state capacity at the centre of how recovery is governed.

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Ukraine’s recovery needs are staggering. The latest assessment of damage and needs places the cost at US$ 587.7 billion over the next decade, nearly three times the country’s GDP. International partners have mobilised extraordinary support, channelled through a very sophisticated system.

This system knows a great deal about needs and commitments. Damage is mapped, needs are quantified, reforms are tracked and disbursements are conditioned based on performance benchmarks. Ukraine has become one of the most closely monitored recovery processes in modern history.

However, none of the tools governing Ukraine’s recovery was designed to measure whether the institutions behind it can actually function properly and deliver – and this is the hidden fault line.

A ceasefire and ultimately a durable peace will transform the environment in which recovery takes place. But the Government of Ukraine has made a deliberate and unprecedented choice to pursue recovery and reform concurrently with fighting the war, treating them not as post-war tasks, but as strategic imperatives that cannot wait. Thus the institutional foundations laid down now will determine what a future peace can actually be built on.

Resilience – misused and misunderstood

“Resilience” has become one of the most frequently used words in Ukraine to describe the extraordinary capacity of Ukrainians to endure conditions no society should have to withstand. This interpretation is understandable, but incomplete. The capacity to cope with extraordinary hardship is not resilience; it is the absence of an alternative.

Resilience, properly understood, is something more operational: whether government systems can keep delivering services under pressure, adapt when circumstances change and maintain the trust of the people they serve. And right now, no one is measuring these criteria across Ukraine’s recovery architecture. This gap matters: recovery fails when state capacity is not fully part of the equation.

Built for a different problem

Most recovery frameworks begin with the same questions: What has been destroyed? What will it cost to rebuild? Who will pay? These are necessary questions, but are not sufficient. They rest on an assumption that if financing is available and reforms are agreed, delivery will necessarily follow.

Ukraine is stress-testing this assumption under conditions no recovery framework was designed for. It is not a post-conflict case, but a country simultaneously fighting a large-scale war, keeping services going for millions of displaced people and affected populations, managing billions in international assistance, and implementing reforms under martial law.

This is a permanently stressed system operating at the edge of institutional limits. The question is no longer whether Ukraine can rebuild, but whether state systems can carry the burden placed on them.

Four pressures, one blind spot

Four compounding pressures are eroding the state’s ability to deliver in ways the current recovery architecture is poorly equipped to see.

Need and capacity are moving in opposite directions. Front-line oblasts account for 82% of documented destruction. The areas bearing the heaviest burden are also the ones where the fiscal and institutional base has been most severely compressed.

Spending does not always translate into results. Social protection allocations in the 2026 budget stand at UAH 468.5 billion (US$ 10.5 billion), covering growing caseloads of displaced persons, veterans and vulnerable households. In parallel, humanitarian cash programmes deliver large-scale support. Despite the combined scale of both, nearly 80% of households in front-line areas still cannot meet their basic needs.

External financing is becoming increasingly uncertain. The United States has ended budget support for Ukraine, and the 2026 financing gap stands at around US$ 52 billion, of which US$11.9 billion had been mobilised by mid-year, and the structure of external support is shifting from grants to loans at the moment when the fiscal pressure is most acute. Humanitarian funding is declining at the same time, affecting the most vulnerable.

Institutional capacity is under pressure. Mobilisation, emigration, and internal displacement have reduced the number of experienced civil servants and administrators. This loss is not visible in dashboards, but it determines whether systems can function. The state is being asked to do more with fewer personnel. Institutional stress of this magnitude also creates governance risks, including corruption, not as a stand-alone phenomenon, but as a consequence of the same erosion of state capacity that affects delivery.

The measurement gap at the heart of recovery

The frameworks governing Ukraine's recovery are sophisticated and, in their own terms, effective. Damage assessments tell what has been destroyed and how much is needed, while Ukraine's digital reconstruction platform, DREAM, tells what projects have been registered, funded, and completed. In complementary ways, the IMF benchmarks and EU scorecards tell, whether the right systems and processes have been adopted.

Every instrument does what it was built to do. But none was designed to answer the one question that matters most: can the institutions responsible for delivery actually function, where, and under what conditions?

Consider DREAM: out of more than 12,000 registered projects, fewer than 10% are fully funded, and more financing is therefore needed. Historically, however, Ukraine's public investment absorption capacity has never exceeded 30%. This is not only a financing problem – it is also a capacity problem. More money helps, but on its own it will not close the recovery gap.

What gets measured gets managed. The tools governing Ukraine's recovery fail to measure the one thing that determines whether recovery holds: state capacity under sustained pressure. What cannot be seen cannot be strengthened – and the consequences are already visible.

Firstly, priorities become distorted. When capacity is not visible, investment flows to where delivery is easiest. The risk of territorial disparities grows, with front-line regions, where institutional stress is greatest, receiving support that falls short of what their situation requires.

Secondly, humanitarian transitions become poorly managed. Humanitarian aid never stops because people no longer need it; it stops because the money runs out. In 2026, with humanitarian funding contracting, this moment is already here. A successful transition is measured by whether people can access services, meet their basic needs and become self-sufficient. Right now, this test is being applied without the evidence needed to know whether the systems taking over can pass it.

Thirdly, private investment becomes even more constrained. Private capital responds to predictability and credible commitments, not damage maps. Security conditions matter, but they are not the whole story. Across much of Ukraine's territory, a critical binding constraint is not security, but the absence of any reliable way to read the institutional landscape on the ground. The risk-financing architecture is important, but it will not unlock the purely commercial investment that the scale of Ukraine's needs requires.

A different kind of question

The instinctive response to complexity is more coordination: new platforms, working groups and mapping exercises. This temptation should be resisted.

The problem is not lack of dialogue; it is the absence of a shared, evidence-based picture of where systems can function effectively and where they need further support. Without that, coordination produces alignment around incomplete questions.

Closing this gap requires a state-capacity agenda built around what resilience means in operational terms: whether systems can deliver under pressure, adapt when conditions change and sustain the trust of the people they serve.

In practical terms, this requires three shifts:

1. For humanitarian partners: Use capacity evidence to guide transition decisions rather than funding cycles. The question should not be “what can we no longer afford?” but “what can government systems demonstrably absorb?” This distinction determines whether transitions strengthen state capacity or simply transfer risk to people who have no alternative.

2. For development institutions: Calibrate instruments to territorial conditions rather than national benchmarks. Territorial divergence is structural, and uniform approaches generate gaps that parallel delivery structures tend to fill. However well-intentioned they are, these structures risk substituting for state capacity rather than building it.

3. For government: Clearly identify where the state can deliver effectively, where it requires reinforcement, and where complementary support remains necessary – and make this assessment the basis for sequencing recovery investment, not financing availability or partner timelines.

The evidence of Ukraine’s capacity constraints exists. What is missing is a framework that consolidates and operationalises it across state systems, at the national and subnational levels, in a form that decision-makers can act on.

The window is open

Ukraine’s recovery will not be determined by what is mapped, committed or financed alone. It will be determined by whether institutions can function, adapt and retain public trust under sustained pressure.

The window for getting this right is open. A recovery architecture that cannot measure state capacity under stress will never deliver the recovery it claims to be building. The methods for such measurement exist. What is missing is their integration into how recovery is governed.