

INTERNATIONAL EXPERIENCE IN RECOVERY AND RECONSTRUCTION OF STATES AND REGIONS AFTER MILITARY CONFLICTS AND ENVIRONMENTAL DISASTERS: LESSONS FOR UKRAINE

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Due to the aggressive nature of the Russian Federation's war against Ukraine, military actions lead to the destruction of housing and infrastructure. Acts of terrorism by the Russian army, such as the dam sabotage of the Kakhovka Hydroelectric Power Station and extensive landmining, result in ecological and humanitarian catastrophes.

The Ukrainian government is unable to fully respond to the challenges and finance the efforts to eliminate the consequences of armed aggression and terrorism without financial assistance from European Union countries, the United States, and others. Due to the occupation of territories, worsening economic conditions, and increased expenditures on Armed Forces funding, Ukraine's state budget deficit has risen to fifty percent.

Direct losses inflicted on Ukrainian infrastructure exceed the size of its annual GDP. Currently, sources of funding for damaged and destroyed infrastructure include state and local budgets, assistance from partner countries, and targeted funds, which are also replenished through confiscated Russian assets.

In the future, frozen funds of individuals and legal entities from the Russian Federation, as well as Russian state reserves in the financial institutions of democratic countries, could become the main sources of funding for housing reconstruction and new infrastructure construction. The main challenges in accessing this resource include finding legal grounds for confiscating frozen assets and transferring them for the needs of Ukraine, ensuring the targeted and transparent use of funds, and preparing state institutions to effectively utilize an amount equivalent to one and a half times the country's GDP.

Simultaneously and likely crucially, private investments should contribute to the recovery of the Ukrainian economy, industry, and infrastructure. Global experience shows that creating conditions for doing business and attracting foreign capital contributes to sustainable development and GDP growth.

To improve the investment climate and enhance Ukraine's competitiveness, the Ukrainian government needs to continue fulfilling its commitments to the International Monetary Fund, the Council of Europe, within the framework of the Association Agreement with the EU and implement new reforms in the fight against corruption and the rule of law.

Ukraine can draw lessons from the reform experiences of countries such as the Federal Republic of Germany, Poland, the Czech Republic, Slovakia, Romania, Japan, Kuwait, Bosnia and Herzegovina, Croatia, Kosovo, Lebanon.

Description of the Situation

In 2022, the Russian Federation declared war on Ukraine, although a hybrid military conflict against Ukrainian sovereignty with the involvement of Russia has been ongoing since 2014. Despite the officially stated goal of the war, namely the destruction of Ukraine's military potential and the suppression of armed forces, Russia is also carrying out the occupation of territories.

Despite the resistance from the Ukrainian Defense Forces, the occupation of territory is accompanied by combat actions involving heavy weaponry. Artillery shelling, mines, guided aviation bombs, cruise, and ballistic missiles damage or destroy infrastructure objects, including residential buildings, energy and logistics infrastructure, railways, medical and educational institutions, roads, and bridges in the frontline and border areas.

Furthermore, long-range missile strikes are aimed at destroying the energy, logistics, and social infrastructure in the so-called "rear" areas of Ukraine. Due to the low precision of some types of weapons and the terrorist nature of Russia's military leadership actions, "non-military" targets also suffer damage and destruction.

The calculation of damages to Ukraine's infrastructure caused by Russian aggression is being carried out by the Institute of the Kyiv School of Economics. As of September 1, 2023, the total amount of documented direct damages inflicted on Ukraine's infrastructure through the full-scale invasion by Russia [amounted](#) to \$151.2 billion (replacement cost).

In the overall volume of direct damages, the largest share is attributed to the loss of residential property, amounting to \$55.9 billion. In total, 167.2 thousand residential properties have been destroyed or damaged due to combat actions. The second and third places in terms of losses are occupied by the infrastructure and industrial sectors, with \$36.6 billion and \$11.4 billion, respectively. Since the beginning of hostilities in Ukraine, 18 airports and civilian airfields have been damaged, at least 344 bridges and river crossings, over 25 thousand kilometers of national and local roads, and municipal roads have been affected.

The scale of such destruction is estimated to be the largest since World War II. According to the World Bank's [estimation](#), the reconstruction of Ukraine's economy after the resolved war by Russia will cost at least \$411 billion.

The reconstruction of the Ukrainian economy, industry, housing, and infrastructure is in the interest not only of the Ukrainian people but also of the democratic bloc of countries. An unrecovered and impoverished Ukraine will create instability in the Central and Eastern European region with long-term humanitarian, political, and security consequences for neighboring countries. Considering this, free and democratic countries must unite their efforts aimed at the long-term revival of Ukraine's economy.

Funds will need to be allocated carefully and slowly, considering the size of the country's GDP. Ukraine's ability to absorb investments will be limited in terms of labor and logistics.

Forecast and Perspectives

The post-war environment in the country is complex and demanding, as the primary task is the rapid assessment of humanitarian needs. Subsequently, the country requires a detailed evaluation of the damages and destruction caused by the war, and the development of a comprehensive recovery plan that can set the country on the path of sustainable development. Since this is a daunting task for any country, it requires the support of several national and international organizations, such as the World Bank, the European Union, the United Nations, and the International Monetary Fund.

Ukraine cannot independently finance the reconstruction of housing and infrastructure. It is [expected](#) that by the end of 2023, Ukraine's GDP will amount to 168.3 billion dollars. The country's state budget deficit is [about 50%](#), covered through loans and grants from Western partners, mainly the United States and European Union countries.

Current guaranteed sources of funding for reconstruction are the State Fund for the Elimination of Consequences of Armed Aggression and the state program "eRecovery", funded by the state budget, transfers of income from the National Bank, and the sale of confiscated Russian property. In the future, reparations from the Russian Federation, funds arrested or blocked in other countries, grants, preferential loans, and private investments may become additional sources.

In September 2023, U.S. President Joe Biden appointed Penny Pritzker as the Special Representative of the United States for Economic Recovery in Ukraine. Pritzker will be responsible for investment issues, business engagement, support for reforms, and interaction with international partners. According to her, the conditions for receiving funding from the U.S. will include ensuring proper fund management and implementing reforms.

Post-war reconstruction provides Ukraine with an opportunity to break the 30 years of sluggish economic and political development, according to the [report](#) from the American analytical center RAND titled "Reconstructing Ukraine: Creating a Freer, More Prosperous, and Secure Future". The attractiveness of EU membership should be the main driver of policy and the main incentive for reforms. This is another reason why the EU should take a leading role in guiding the efforts to rebuild Ukraine.

The reconstruction of Ukraine is a long-term project that will require significant efforts and resources. Corruption and other violations during the recovery process can undermine the trust of international partners willing to assist Ukraine. Therefore, it is crucial to ensure transparency and efficiency in the use of funds allocated for recovery.

The main domestic policy priority for Ukraine during and after the war should be the reform and strengthening of institutions responsible for management and control of funds, as well as ensuring the rule of law, according to the [report](#) by Transparency International Ukraine and the Institute of Analysis and Advocacy.

The Ukrainian government should make efforts to complete the selection of leaders for anti-corruption bodies and the antimonopoly committee, enhance the independence of the Specialized Anti-Corruption Prosecutor's Office, restart the High Council of Justice, and the High Qualification Commission of Judges. Consultations with Western experts from the Venice Commission and similar bodies in the early stages of the process could contribute to strengthening trust in the government's efforts.

The personnel composition of these institutions should be expanded to ensure their functioning at a high level, even during times of war. Specialized law enforcement agencies [should be](#) endowed with the necessary legal powers to conduct effective independent investigations.

Judicial and law enforcement reform should serve as a strong foundation, guaranteeing the protection of rights, freedom of economic activity, and accountability for violations.

Strengthening the Audit Chamber and the State Audit Service will contribute to transparent processes during reconstruction. Sociological surveys show that Ukrainians aspire to overcome corruption. Therefore, they will actively monitor the activities of government authorities and exercise their rights to control the transparent use of funds for Ukraine's reconstruction.

Support from Kyiv's partner countries remains strong, as evidenced by the decision of EU member country leaders to begin negotiations with Ukraine on joining the bloc. However, internal and external political processes constantly pose obstacles and threats, necessitating the government to work on reducing dependence on EU funding.

Ukraine needs direct foreign investments, including for technologies attraction. To attract private investments into the economy, the country needs to develop mechanisms for their protection, and one way to achieve this could be insuring investments against war risks, [according](#) to VoxUkraine analyst Oleg Ivanov.

Since private insurance companies currently do not offer such products, the government and international organizations have [developed](#) solutions. They assign the responsibility for insuring war risks to the state Export Credit Agency.

The burden of responsibility for compensating risks associated with investing in a war-affected country lies on Western governments and international financial institutions, according to [research](#) by Andrew Losen and Nick Fenton titled "Corruption and Private Sector Investment in Ukraine's Reconstruction".

For the private sector to play an active role in Ukraine's recovery, profit opportunities must outweigh potential costs and risks. Efforts to reduce security risks can play a key role in promoting private sector investment in Ukraine's recovery.

The war in Ukraine is turning into a protracted conflict that may last for years. This means that a significant portion of Ukrainians forced to leave their homes will not return in the near future. The Ukrainian government must consider these circumstances and develop a new policy regarding the workforce. It should focus on creating new jobs for Ukrainians unable to return home and potential engagement of labor resources from other countries.

According to the Razumkov Center's [survey](#) of experts from government bodies, civil and volunteer organizations, and researchers, 91% believe that population losses due to migration and military actions will have a very significant or significant impact on the country's recovery. 74% of experts noted that the faster refugees return, the faster Ukraine's economy will grow.

Factors facilitating the return of refugees to Ukraine include, first and foremost, creating opportunities for employment or professional development (cited by 89% of experts). Negative factors include the uncertainty of the security situation, the possibility of escalation or resumption of hostilities (mentioned by 83% of experts), and the lack of job opportunities, with 76% stating that some refugees may not immediately find employment upon return.

87% of experts believe that the Ukrainian government should implement specific measures to encourage the return of Ukrainian citizens. The most frequently mentioned measures include rapid post-war reconstruction of affected regions and the country as a whole, especially infrastructure (80%). Additionally, 48% point out the need for special measures addressing the needs of children and women, 44% advocate for financial incentives for the return of Ukrainian citizens, 31.5% suggest that Ukraine should convince European partners that the return of refugees is another form of assistance to the country.

Experience of Other States

The first step in post-war reconstruction is identifying the priority sectors of the country's economy. These sectors may vary based on factors such as population size, production factors, manufacturing capabilities, exports, imports, and contributions to GDP, as highlighted in the results of the KPMG Ukraine [study](#) "Post-war Reconstruction of Economy: Case Studies".

However, certain economic sectors are universal and have been an integral part of studies assessing damage in war-ravaged economies in the past. These include housing, infrastructure, trade, energy, agriculture, medicine, and education.

The economic component of post-war reconstruction involves restoring damaged infrastructure, providing social services, supporting the private sector, and implementing structural reforms to ensure macroeconomic stability.

Historical experience shows that organizations and countries unite to provide assistance to war-affected nations during the reconstruction and recovery phase. In such situations, international organizations step in, offering necessary resources in the form of loans and grants, as evidenced by KPMG Ukraine's research.

Developed countries have extended a helping hand to states experiencing periods of armed conflicts, showcasing their geopolitical interests and goodwill. The United States played a leading role in the 75-year post-war reconstruction of Europe and response to large-scale natural disasters. The most notable example is the Marshall Plan developed for European countries after World War II.

The provided aid [amounted](#) to \$22 billion, which, adjusted for inflation, equals \$182 billion in 2020 prices. U.S. assistance stabilized the situation on the continent and propelled its growth after the war.

Lessons for Ukraine's recovery can be drawn from the consequences of both wars and natural disasters. Recent examples of post-war reconstruction, such as Iraq and Afghanistan, may not be directly relevant to Ukraine due to political and sociocultural factors.

More relevant lessons can be learned from the transformational reconstruction of Western Europe after World War II, Eastern Europe after the Cold War, the Western Balkans after the violent breakup of Yugoslavia, and Kuwait after the Gulf War. The basic formula for reconstruction consists of initial capital, security guarantees, reform implementation, and a significant portion of funding, including investments.

The reconstruction of Europe and Japan after World War II and the post-war reconstruction of the Balkans highlighted the importance of security guarantees and even military presence. Reliable security mechanisms can provide the private sector with greater confidence in risky investments.

The presence of massive aid, such as the Marshall Plan for post-World War II Europe, provides a powerful impetus for internal reforms. The absence of clearly defined guarantees and a sequence of actions, as seen in the case of the Western Balkans, weakens the impact on similar processes.

The war for independence in Croatia, lasting from 1991 to 1995, costed the economy \$27 billion in material damages, a quarter drop in GDP, and the destruction of 180 thousand housing units.

The Croatia Social and Economic Recovery Project (CSERP) included investments in communities, program management addressing social cohesion and economic revival, institutional development financing consultancy services, equipment procurement, and capacity building for central, regional, and local authorities, as well as demining.

The war in Bosnia and Herzegovina, from April 1992 to September 1995, resulted in estimated losses of \$50-70 billion, 15-20 times the GDP in the first year after the war.

With support from the World Bank, the European Bank for Reconstruction and Development, the European Union, and broad international donor community, the government of Bosnia and Herzegovina developed a Priority Reconstruction Program, which anticipated \$5.1 billion in external financing over the next three to four years after the war.

The priority projects of Bosnia and Herzegovina's reconstruction program included urgent restoration of the financial system, rapid housing reconstruction, stabilization of the power supply system, provision of basic medical services, restoration of agricultural farms, urgent water supply and solid waste disposal work, transport restoration, and education reform.

Experts who studied the experience of reconstruction in Bosnia and Herzegovina identified a series of mistakes that could have led to the prolongation of the rebuilding process. These include:

- Lack of a clear economic development strategy, resulting in reconstruction programs not being directed towards creating long-term competitive advantages for the country.
- Insufficient coordination among different donors, with each organization having its own goals and priorities, leading to duplicated efforts and inefficient use of funds.
- Weak communication between donors and local authorities, complicating cooperation and hindering the joint resolution of problems.
- Low managerial potential of local authorities, causing reconstruction programs to often be inadequately implemented.

In the context of building the rule of law in Bosnia, the United States and other donors created a strategic plan for judicial reform, identifying priority areas. However, political and systemic

obstacles arose in the path of judicial reform, including the politicization of the judiciary, constant threats against judges, and the inability of the police to enforce judicial decisions. In this context, participants focused on areas where Western assistance could yield sustainable results: judicial administration and judge training.

The reconstruction strategies for Kuwait after the war were based on the reconstruction of the oil sector and technological modernization. The reforms facilitated privatization and financial stabilization. Kuwait's most urgent priorities included extinguishing fires and clearing oil fields of unexploded mines and ordnance left by Iraqi forces before their retreat. International experts and foreign companies were involved in this process.

Approximately five years later, Kuwait's economic indicators had recovered and surpassed pre-war levels. From 1994 to 2008, Kuwait's real GDP grew at an average annual rate of 5.2%.

The reconstruction process in Kuwait relied on three main sources of funding: accumulated savings from pre-war budget surpluses, an increase in the limit of the national debt, changing the country's pre-war status as a net creditor for the next five years, and regular payments from Iraq amounting to 30% of oil export revenues over several years to the UN fund under the "Oil-for-Food" program. UN-managed war reparations were paid directly to Kuwaiti claimants—individuals, private, and state-owned companies.

The success of Kuwait was attributed to the government's focus on the restoration of the oil sector and technological renewal, manifested through new investments. In addition to the ability to generate oil wealth, the reconstruction became possible through the interaction of various factors in the fields of politics, social policies, and economics.

In terms of governance, the government supported the migration of tribes from Arabian Peninsula to the territory of modern Kuwait, took measures to strengthen the cohesion of local communities, and maintained sovereignty despite post-war political challenges. The government also made significant social payments to Kuwaiti citizens and substantial state expenditures during and after the war, despite a decline in budget revenues.

In Kuwait's economic policy, the implementation of a new macroeconomic strategy, trade and labor liberalization, and the strengthening of the role of the private sector through microeconomic reforms have been instrumental. Following the war, Kuwait faced a severe shortage of labor. The new policy aimed to reduce dependence on foreign labor and create a reserve of local skilled workers.

A crucial precondition for the country's economic growth is free markets and access to international trade. The Marshall Plan encouraged intra-European trade. Japan's economic recovery was facilitated by production for the Korean War and later the opening of the American market. Regional cooperation, particularly in energy and road construction, was promoted alongside trade.

The reconstruction of Ukraine can also be compared to rebuilding after natural disasters such as fires, earthquakes, tsunamis, and hurricanes. Destruction from natural disasters opens opportunities for building new and energy-efficient infrastructure.

The sequence of actions affects the reconstruction processes. In Haiti, for example, delays in addressing basic tasks, such as clearing debris, hindered recovery. In Ukraine, the critical issue will be the disposal of unexploded mines and ordnance.

The financial system must be prepared to receive assistance, and the command structure for donor oversight should be well-organized. Successful examples of recovery after catastrophes prioritize the direct involvement of affected communities in problem-solving and decision-making.

One of the key lessons learned from the experience of recovery after natural disasters is the involvement of local authorities and civil society. Since 2014, Ukraine has successfully implemented decentralization reforms.

Donor countries should adopt a structure directing funding to the priorities chosen by the Ukrainian government and people, according to the [report](#) from the American analytical center RAND "Reconstructing Ukraine: Creating a Freer, More Prosperous, and Secure Future".

Determining the sequence and prioritization of key reconstruction tasks requires coordination. This is necessary not only for a quick start to reconstruction but also to assist refugees and internally displaced persons in returning to their homes or new residences. The experience of other countries shows that refugees and internally displaced persons are unlikely to return on their own, so active and targeted policies will be needed to facilitate their return.

In the matter of the return of Ukrainian migrants to their homeland, the post-Yugoslav experience should be considered. It [took](#) Bosnia and Herzegovina almost ten years for half of the two million refugees and forcibly displaced persons to return home. In the first 16 months after the signing of the Dayton Peace Agreement, in which the return of refugees was a post-war priority, only about 20% of all displaced persons returned to their homes.

Instead, in Kosovo, about three weeks after the end of the local armed conflict in 1999, around 600,000 refugees returned, the majority of whom were ethnic Albanians. This sharply contrasted with the situation in Bosnia. The two cases differed significantly due to the time factor – displacement in Kosovo lasted on average about three months, while refugees from Bosnia and Herzegovina spent up to four years outside their homes.

During 1992-1995, 37% of the housing stock in Bosnia and Herzegovina was destroyed. Several programs provided loans for housing needs. In 1998, USAID and the European Union established the European Fund, which provided loans to local banks and microcredit

institutions, which then granted loans to local residents. The European Bank for Reconstruction and Development also contributed funds for social projects, including housing for the population.

Donors focused primarily on construction rather than the needs of the owners. Programs targeted engineering aspects rather than social or economic factors. Compensation mechanisms for housing loss did not function properly.

Ukraine needs to pay attention not only to physical infrastructure but also to create social infrastructure, provide jobs, and opportunities for education. Other important policy directions for Ukraine in dealing with migrants should include analytical and communication work and the implementation of incentive measures, including for investments and business, working with the diaspora, according to a [report](#) by the Razumkov Center.

William Courtney and Howard Shatz from the RAND Corporation [believe](#) that Ukraine will have to find compromises between investing in efficient or resilient infrastructure during the reconstruction planning. Ukraine could decentralize energy production and distribution facilities, including by increasing the use of distributed solar power stations.

The consequences of Russian missile strikes and drone attacks on Ukraine can be mitigated through timely and economically effective restoration of functions. For example, Kyiv could establish backup capacities in critical infrastructure objects such as water and gas supply, emergency aid, and medicine. The ability for rapid repairs could be a criterion for designing housing, bridges, and roads.

Strengthening infrastructure can be achieved by moving communications underground, using sandbags for protection, constructing cage-like roofs, and reinforcing structures.

Adopting explosive- and fire-resistant building norms can help in the long term. By improving energy efficiency, Kyiv can reduce dependence on vulnerable objects and decrease their thermal footprint, according to researchers. Ukraine can also redesign the internet and other infrastructure nodes, considering cyber threats.

According to the World Bank, building resilient infrastructure will require additional spending of about 3% of the total investment volume. Reconstruction considering constant Russian threats may increase the cost, but in the long term, amid climate change, it can save costs, stimulate investments, and accelerate economic recovery.

Conclusions

The most crucial aspect for the country's future development is its institutional transformation, the development of a free democratic society with strong rule of law, guaranteeing private property rights. It is time for Ukraine to catch up with Poland, with which it was on equal

footing in 1990, and the powerful social consensus indicates the necessity of doing so, according to economist and diplomat Anders Aslund.

The government's focus should be on key principles: revitalization and reboot of the economy and Ukraine's integration into the international value-added creation chain. Private capital will be crucial not only as a source of funding but also as a tool for the effective use of donor funds and potentially frozen Russian assets.

Private companies will bring experience and resources to Ukraine – procurement opportunities, supplier networks, and efficiency control. It is important for businesses, donors, and the Ukrainian government to coordinate activities to achieve maximum synergy in implementing reconstruction plans.

The steps to be taken soon include adopting necessary legislation, coordinating sources of reconstruction funding, and agreeing on the sequence of actions. Reconstruction can only begin when there are working security guarantee mechanisms. The scale of destruction and financial needs for reconstruction will require a complex and intricate coordination mechanism among different entities (international financial organizations, countries, and alliances).

Moreover, there is a need to create a favorable environment for financing and investment, strengthen the fight against corruption and rule of law, focus on technologies that will accelerate economic growth. If all these efforts are prepared, they will lead Ukraine to an inclusive, accountable, and sustainable recovery.

Ukraine is a European state, and its reconstruction will resemble the rebuilding of Western Europe after World War II, Eastern Europe after the Cold War, and the Western Balkans after the breakup of Yugoslavia. The lessons from these examples should be a source of information for Ukraine's recovery.

Support for Ukraine in its reform and recovery efforts aligns with the interests of democratic countries worldwide. A secure, economically developed Ukraine, a full-fledged member of European institutions, will ensure regional security and prevent further aggression from Russia.

Ukraine's victory over Russia will be a significant signal to other countries that democracy can overcome authoritarianism. After Ukraine's victory, autocratic regimes will no longer be able to blackmail the world with high prices, energy shortages, especially oil and gas, and agricultural production deficits.

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