

Post-War Reconstruction and Disaster Recovery: Lessons for Ukraine

ALEX SUNDAKOV¹

ANNOTATION. The article analyzes key lessons learned during post-war and post-disaster reconstruction. Post-war and post-disaster reconstruction is a complex and multidimensional process that requires a comprehensive approach. Analysis of past reconstruction experiences reveals a number of key lessons. First, the involvement of local communities and leaders is important, as it contributes to the effectiveness of measures and ensures their social acceptability. Second, a balance is needed between the speed of reconstruction and its quality: hasty decisions can lead to unreliable infrastructure, while strategic planning guarantees sustainable development. Another important aspect is an integrated approach to reconstruction, which includes not only physical recovery, but also economic, social and environmental stabilization. Particular attention should be paid to the development of sustainable infrastructure that can withstand future crises. An important factor in success is the support of economic activity through job creation, small business development and investment in the local economy. Social cohesion and psychological rehabilitation also play a key role in restoring peace. Infrastructure should be designed to withstand future disasters, incorporating adaptive urban planning and disaster-resistant construction techniques. Economic recovery is equally important, as job creation, microfinance initiatives, and investment in local businesses play a significant role in restoring livelihoods. At the same time, transparent governance and anti-corruption controls are necessary, as corruption can significantly slow down the reconstruction process. The experience of rebuilding after World War II, natural disasters shows the importance of strategic planning, inclusiveness, and resilience. Learning from these lessons will help improve the effectiveness of future recovery initiatives.

KEYWORDS: post-war reconstruction, post-disaster reconstruction, infrastructure restoration, sustainability, social adaptation, economic recovery, transparent governance, fight against corruption, public participation, integrated planning, societal resilience, crisis management, humanitarian assistance, housing restoration, environmental security.

Introduction

Post-conflict and disaster infrastructure reconstruction is essential to help communities recover and rebuild after devastating events. Mobilizing private sector participation in these efforts is often necessary to ensure that resources are available and that reconstruction is completed efficiently and effectively.

¹ **Alex Sundakov** – MSc in Economics (London School of Economics, United Kingdom), Executive Director at the Consulting Company "Castalia" (Sydney, Australia). Head of the International Monetary Fund Office in Ukraine (1992-1997). Sphere of scientific interests: international finance, investment, infrastructure, sustainable development. E-mail: alex.sundakov@castalia-advisors.com

The lessons learned from past efforts can provide invaluable guidance for the post-war infrastructure reconstruction in Ukraine.

This paper examines the lessons learned from six case studies of post-conflict and disaster infrastructure reconstruction and the mobilization of private sector participation. The case studies include the post-war reconstruction of Iraq (2003–2012), Japan (1945–1952), Korea (1950–1959), the Marshall Plan (1948–1951), the reconstruction efforts in former Yugoslavia (1991–2001), and the Christchurch, New Zealand recovery after 2010 and 2011 earthquakes. Disaster recovery is an important scientific task, so Paul Collier, in his book *The Bottom Billion* (2007), analyzes the economic challenges faced by countries trapped in poverty, particularly those that have experienced wars and internal conflicts. He emphasizes that traditional approaches to international aid are often ineffective due to corruption, weak institutions, and an unfavorable external environment. Collier proposes a multidimensional strategy that includes targeted financial assistance, international regulation of resources, and improved security in post-conflict regions². His research provides valuable insights into the mechanisms of economic recovery after crises and the role of the international community in this process. James A. Robinson, in collaboration with Daron Acemoglu, in the book *Why Nations Fail* (2012) examines how political and economic institutions determine the trajectory of national development, including after crises. The authors argue that inclusive institutions promote economic growth and societal resilience, whereas extractive institutions lead to stagnation and conflicts³. Therefore, post-war recovery requires not only material assistance but also fundamental reforms aimed at strengthening governance, the rule of law, and democratic processes. Dani Rodrik studies the impact of globalization and state policies on the development of crisis-affected countries. In his works, particularly *The Globalization Paradox* (2011), he emphasizes that universal economic solutions are not always effective, especially in post-conflict conditions⁴. According to him, states must tailor recovery strategies to their specific conditions, balancing market reforms with social programs. Rodrik also highlights the role of government policies in stimulating economic growth through investments in human capital, infrastructure, and innovation.

The works of Collier, Robinson, and Rodrik demonstrate that successful post-crisis recovery requires a comprehensive approach. It should include financial support and infrastructure investments as well as political reforms

² Collier, Paul. *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*. Oxford: Oxford University Press, 2007.

³ Acemoglu, Daron, and James A. Robinson. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown Business, 2012.

⁴ Rodrik, Dani. *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W.W. Norton & Company, 2011.

that ensure stability and sustainable development. Institutional quality, the degree of integration into the global economy, and the effectiveness of state policies are key factors determining the success of rebuilding after wars and disasters. Michael W. Doyle is a prominent scholar in the field of peacebuilding, especially post-conflict democratization. His book *Making War and Building Peace: The United Nations since the Cold War* (2006) explores the dynamics of peacebuilding operations, focusing on the role of international organizations, particularly the United Nations, in promoting democracy and stability after conflicts. Doyle argues that successful post-conflict peacebuilding requires a comprehensive approach that integrates political, social, and economic elements, aiming not just to end violence but to lay the foundations for lasting peace and democratic governance⁵. His work emphasizes the importance of international intervention in supporting fragile states through institutional reforms, rule of law, and the establishment of democratic processes.

Martijn Janssen focuses on the social dynamics of post-disaster recovery and the critical role that communities play in rebuilding their lives and infrastructure. In his work, particularly in *The Resilience of Communities to Natural Disasters: A Sociological Perspective* (2012), he argues that bottom-up approaches, where local populations are actively involved in decision-making, are more effective than top-down interventions. Janssen highlights the necessity of social cohesion, local knowledge, and community-led initiatives in the recovery process. His research suggests that empowering local communities to lead their recovery efforts enhances resilience and creates more sustainable outcomes⁶. Scott Barrett is a leading researcher on international cooperation, particularly in the context of global environmental challenges and post-disaster recovery. His book *Why Cooperate? The Incentive to Supply Global Public Goods* (2007) analyzes how nations and international organizations can collaborate to address global crises, including natural disasters. Barrett argues that effective post-disaster recovery requires not only national efforts but also robust international cooperation, including financial support, knowledge exchange, and technical assistance. His work underscores the challenges and opportunities of building cooperative frameworks that align the interests of both donor and recipient countries in recovery and development processes⁷.

The paper aims to provide a comprehensive understanding of the challenges faced and best practices employed during these reconstruction

⁵ Doyle, Michael W. *Making War and Building Peace: The United Nations since the Cold War*. Princeton: Princeton University Press, 2006.

⁶ Janssen, Martijn. *The Resilience of Communities to Natural Disasters: A Sociological Perspective*. New York: Springer, 2012.

⁷ Barrett, Scott. *Why Cooperate?: The Incentive to Supply Global Public Goods*. Oxford: Oxford University Press, 2007.

efforts, as well as insights into the role of private sector participation. The analysis of the case studies allows identifying key factors that contributed to the success or failure of reconstruction efforts and offering recommendations for future post-conflict/disaster infrastructure reconstruction projects.

A comprehensive review of the lessons learned from previous efforts in post-war infrastructure reconstruction is needed. The insights are derived from six case studies that highlight post-conflict reconstruction, focusing both on government and development partners as well as the mobilization of private sector participation. The case studies include:

- Reconstruction program in Iraq (2003–2012)
- US post-war occupation of Japan (1945–1952)
- Reconstruction of South Korea (1950–1959)
- The Marshall Plan (1948–1951)
- Reconstruction efforts in former Yugoslavia (1991–2001), and
- Reconstruction of Christchurch, New Zealand, after the 2010 and 2011 earthquakes.

To facilitate a structured analysis, the article is divided into two sub-sections:

— Section 1 focuses on the lessons learned by governments and development partners regarding their roles in providing post-conflict and disaster support for infrastructure reconstruction.

— The lessons learned are then applied to the context of Ukraine to provide guidance for post-war infrastructure reconstruction and the mobilization of private sector capital.

Lessons learned by governments and development partners

This section provides an overview of the common challenges that donors and governments face during post-war or disaster infrastructure reconstruction efforts. While each country's reconstruction efforts are specific and have unique challenges, several common issues can be observed across multiple countries, such as lack of coordination between donors, government engagement, and project prioritization. These lessons are discussed in more detail in the following sections.

Lesson 1: Ensure coordination between donor organizations and full engagement of the local government

Effective coordination among donors and international organizations is essential for successful reconstruction efforts in conflict and fragile settings. Donor organizations are vital in providing financial and technical support for infrastructure reconstruction projects in conflict-affected areas, while the local government is responsible for implementing these projects on the ground. However, when these two entities fail to coordinate effectively, it can lead to delays, duplication of efforts, and waste of resources.

One example of the negative impacts of a lack of coordination is observed in the post-war reconstruction process in Iraq after the US-led invasion in 2003. Although donor organizations provided billions of dollars for infrastructure reconstruction projects in the country, the lack of coordination among donors and international organizations, and minimal engagement of the local government resulted in numerous problems. It was challenging for Iraqi institutions to deal with so many projects, given their institutional constraints and lack of recent experience dealing with donors. Moreover, many donors chose to bypass Iraqi institutions instead of helping them better coordinate their activities. This led to projects being built in areas not prioritized by the local government. Similarly, in Korea, the UN Korea Reconstruction Agency (UNKRA) organization was spread out over various regions, and the direction of the recovery was given from outside Korea. This duplication of efforts and staff was neither cost-effective nor efficient and negatively impacted its ability to negotiate with the Korean Government.

On the other hand, incorporating recipient countries' input into the planning part was one of the key factors that contributed to the success of the Marshall plan. The aid allocation under the Marshall Plan involved extensive recipient countries' input. Recipient countries had the opportunity to submit their own plan of action, and the aid allocation was adjusted based on their requests and feedback.

Similarly, in New Zealand, following the 2010-2011 earthquakes in Christchurch, the public was invited to contribute their ideas about the desired look and function of the city. The City Council then utilized these contributions to develop a blueprint known as the Christchurch Central Recovery Plan (CCRP). This blueprint contained detailed information about key civic and community assets, called anchor projects, along with plans for the size, layout, public realm, and central city streets of the central business district.

Overall, establishing uniform contracting, personnel, and information management systems that all reconstruction participants use could be an effective way to improve coordination and avoid interagency conflicts and a loss of efficiency. A uniform set of contingency contracting regulations, synchronous personnel assignments, and a single database containing all programs and projects accomplished in Iraq would have brought coherence and efficiency to stabilization and reconstruction operation contracting. Establishing such systems would ensure integrated planning on contracting, personnel, and information management systems, among other things.

In the context of Ukraine

Rebuilding Ukraine over the next decade is estimated to cost a staggering US\$750 billion, with thousands of participants and hundreds of donors and international partners involved in numerous rebuilding projects. Therefore, coordination of foreign assistance among international donors and

engagement with the government will be crucial to ensure successful and comprehensive national reconstruction and recovery in Ukraine.

The Ukrainian government must take the lead in its reconstruction and recovery efforts with the support of donors, while donor nations must organize and coordinate their own internal assistance structures and appoint senior officials. Then, they must work collaboratively to develop an international coordination platform. Through such careful coordination, Ukraine can achieve lasting results in its efforts to rebuild and recover.⁸

Lesson 2: Prioritize small projects in low-security environments

Establishing sufficient security before beginning any rebuilding projects is essential to ensure successful reconstruction. However, focusing on small projects rather than larger infrastructure projects is recommended when reconstruction begins in a low-security environment. The experience of Iraq illustrates that initiating large infrastructure projects before adequate security measures are in place can result in delays, cost overruns, and abandonment of projects due to security concerns.

Therefore, careful planning and implementation, considering the security situation on the ground, is crucial for successful reconstruction efforts. In the early stages, it is advisable to focus on small, targeted projects that address the immediate needs of local communities. Such projects can have a positive impact by improving local governance, creating jobs, and improving access to basic services like water and electricity.

In the context of Ukraine

The task of reconstructing Ukraine's infrastructure is immense and urgent. It is crucial that efforts start as soon as possible, and this may require some small-scale reconstruction projects to begin during the ongoing conflict. Identifying lower-cost projects that can be implemented quickly will be essential to minimize the risk of destruction and ensure the effective use of limited resources. Success in these smaller projects will make a tangible difference in the lives of Ukrainians, providing much-needed improvements to infrastructure and services. Furthermore, these projects will send an important signal to the private sector, demonstrating the potential for investment and creating opportunities for collaboration in future reconstruction efforts.⁹

As these smaller projects are completed and their success is demonstrated, they can be scaled up to larger, more complex infrastructure initiatives. By starting with small, achievable projects, Ukraine can build momentum and lay the groundwork for larger, more ambitious initiatives in the future.

⁸ Conley, Heather A. *A Modern Marshall Plan for Ukraine: Seven Lessons from History to Deliver Hope*. October 2022. <https://www.gmfus.org/sites/default/files/2022-10/A%20Modern%20Marshall%20Plan%20for%20Ukraine.pdf>.

⁹ Wilton Park. *The Role of the Private Sector in Ukraine's Recovery and Reconstruction*. WP3177, 29 November – 2 December 2022. <https://www.wiltonpark.org.uk/app/uploads/2022/11/WP3177-Report.pdf>.

Lessons learned on mobilizing private capital

In preparing this report, we have reviewed six case studies on post-war and disaster reconstruction efforts in Iraq (2003–2012), Japan (1945–1952), Korea (1950–1959), the Marshall Plan, the former Yugoslavia, and the Christchurch, New Zealand recovery after the 2010 and 2011 earthquakes. The main finding of our review is that private sector participation in infrastructure projects heavily relies on stability and a predictable business environment. In most cases, ongoing security risks or the threat of conflict renewal have deterred private sector investments. As a result, large-scale private investment in infrastructure typically only occurs after a significant period of institutional development and stability. According to estimates, a feasible timescale for potentially attracting larger-scale private investment in infrastructure is around five to ten years after the end of the conflict.^{10:11} Other factors hindering private sector participation include unresolved political status, the lack of basic commercial laws, corruption, and the misallocation of aid funds.

The following sections provide a detailed discussion of the obstacles to private sector participation in post-war infrastructure reconstruction and how each lesson is relevant to the Ukrainian context.

Lesson 1: Security is essential for attracting private-sector investments

Establishing security is crucial for reconstructing post-war infrastructure through private sector participation, as investors are typically hesitant to invest in an unstable and unpredictable environment. For example, Iraq's security situation was volatile, making it challenging for businesses to operate and invest in the country. Companies faced the risk of attacks on their personnel, facilities, and supply chains, which deterred many from participating in reconstruction efforts. Similarly, South Korea did not attract private sector investments from domestic or foreign investors, as they were concerned about the constant threat of renewed conflict with North Korea.

On the other hand, the allied forces in Germany and Japan were highly effective in establishing security within their respective occupation regions. The German and Japanese populations accepted defeat and did not challenge the decisions made by their leaders, which created a stable environment for

¹⁰ Jones S. and Howarth S. 2012. Supporting Infrastructure Development in Fragile and Conflict-Affected States, UKaid. https://assets.publishing.service.gov.uk/media/57e6e67de5274a0eba000011/FCAS_infrastructure_final_report_0.pdf.

¹¹ Private sector investment in electricity generation and distribution projects typically begins to emerge approximately three years after the end of a conflict. After about five years, private investment in these projects becomes more frequent. However, private investment in transport and water infrastructure tends to come much later, if at all, except on a very small scale. Seaports are the main focus of private investment in transport infrastructure. This is because, power projects can generate revenue quickly, which enables them to repay financing costs more easily. However, achieving the same level of revenue generation for transport and water projects is much more difficult. As a result, private investment in these sectors may be limited, and they may require longer periods of stability and institutional development before large-scale private investment becomes feasible. (*author's remark*)

the subsequent sustained rapid economic growth that occurred.¹² In the cases of Germany and Japan, the private sector played a role in the recovery efforts. However, the extent of participation was still not high.

In the context of Ukraine

Ensuring national security and defense is crucial to attracting private capital in Ukraine. The American Chamber of Commerce surveyed 35 US companies operating in Ukraine,¹³ which revealed that national security is the most significant factor for companies considering increasing investment in the country. Over 85 percent of the companies surveyed identified the safety and security of their employees as their primary challenge.

Ukraine must achieve a certain level of security to maintain investors' confidence. This includes the withdrawal of Russian troops and ultimately achieving North Atlantic Treaty Organization (NATO) and European Union (EU) membership. These are necessary steps to instill confidence in the investors and ensure long-term stability.

Lesson 2: Basic commercial laws and institutions are necessary for jumpstarting private sector development and encouraging foreign direct investment

Establishing fundamental commercial laws and institutions is essential to promote foreign direct investment and facilitate the growth of the private sector. There is a need for general laws and regulations to allow for the registration of various types of firms, both domestic and foreign corporations. It is also important to protect private property and enforce contracts, including legislation for enforcing pledges and loans. There needs to be bankruptcy law to govern companies' reorganization and liquidation. In cases where ownership has been highly concentrated or held by the state, privatization laws and competition policies are necessary.

Depending on the situation, countries may either rely on existing institutions or need to establish new ones. For example, Japan's legal system was cut-and-pasted from various international best practices, while efforts in Bosnia and Kosovo focused on drafting internally consistent legislation for market economic activities. In Kosovo, key commercial legislation was adopted, including laws related to business organizations, contracts, pledges, and foreign investment, to create an open, level playing field for all individuals and firms.

There is a trade-off between adopting a cut-and-paste approach or carefully adopting each new law to a country's circumstances. Like in Japan,

¹² Lewarne, S. and Snelbecker, D.. 2004. 'Economic Governance in War Torn Economies: Lessons Learned from the Marshall Plan to the Reconstruction of Iraq', Long Report Prepared for USAID, The Services Group, Inc., Arlington. <https://gsdrc.org/document-library/economic-governance-in-war-torn-economies-lessons-learned-from-the-marshall-plan-to-the-reconstruction-of-iraq/>

¹³ American Chamber of Commerce in Ukraine. 2023. *Presentation Survey*. April. https://chamber.ua/wp-content/uploads/2023/04/Presentation_survey_ENG.pdf.

a cut-and-paste approach was the quickest way to establish a modern legal framework from scratch, and it has certain drawbacks. This approach may not fully align with existing laws and may be incomprehensible to lawmakers, courts, and other practitioners. Conversely, carefully tailoring each new law to the country's specific conditions would be time-consuming, taking several years at best, and may be prohibitively costly.

International organizations can offer technical assistance to help establish the fundamental elements of a suitable legal and regulatory framework. As a result, this can promote private investment in infrastructure once effective stabilization has been achieved.

In the context of Ukraine

Ensuring the rule of law, effective judicial reform, and fair justice will be essential for post-war reconstruction in Ukraine. These factors will also be crucial in attracting investment to the country, along with certainty in the tax regime, legal framework, and protection of investment rights.

Uncertainty in Ukraine's tax regime remains a significant constraint to investment. Ambiguity in tax application is a major challenge foreign investors face, with taxes often unevenly applied, slow refunds, and frequent rule changes. High labor taxes also pose an obstacle. Similarly, the legal framework and protection of investment rights present significant obstacles to investment. Creating an even playing field and applying clear rules will be critical in attracting new investment to Ukraine.¹⁴

Lesson 3: Government corruption and misallocation of aid funds have a negative consequence on attracting private investments

The availability of instruments to manage non-commercial risks is also essential. Misallocating aid funds and government corruption can significantly impact private sector participation in post-war reconstruction efforts. These factors can create an environment of uncertainty and risk for potential investors, making them less likely to invest in reconstruction projects.

For example, corruption in Iraq was one of the main challenges hindering the reconstruction efforts and private sector participation. Although the issue of corruption was recognized in the early stages of the reconstruction, the efforts to combat corruption at all levels in Iraq failed due to a lack of coordination among multiple approaches and insufficient allocation of funds, given the size of the problem. The US established entities that were supposed to track corruption within the Government of Iraq but were unsuccessful and ignored the rampant corruption within the US apparatus in the field and with US contractors involved. The resources allocated initially were vastly underestimated, and the reconstruction program could not recover from this

¹⁴ Chamber of Commerce. *A New Ukraine: A Vision for the Future*. Kyiv: American Chamber of Commerce in Ukraine, 2023. https://chamber.ua/wp-content/uploads/2023/04/A-New-Ukraine_Eng_Online_FINAL.pdf.

in the years to come. Another example is Korea, where the government used foreign aid for political gain, hindering economic development.

To counter corruption effectively, an institution must be in place that pushes efforts on all fronts, from money flows and procurement to implementation. Cash transactions should be discouraged, and all other transactions should be supervised. The procurement process must be standardized and monitored to ensure non-discriminatory practices. Ideally, an anticorruption institution should have people on the ground supervising construction progress regularly.

In the context of Ukraine

The issue of corruption is particularly relevant to Ukraine, as its reputation is marred by the perception of widespread corruption, reflected in its consistently low score on Transparency International's Corruption Perceptions Index (CPI). In 2022, Ukraine ranked 116th out of 180 countries, scoring only 33 out of 100.

As a result, this perception of corruption deters potential investors. Foreign investors have identified corruption, particularly in the judiciary, public procurement, customs, and government services, as a significant challenge when doing business in Ukraine. Investors will be less likely to invest if they believe they have to deal with dishonest officials seeking to extract rents, face unfair competition, or rely on a flawed judiciary to protect their rights. Furthermore, some investors state that they face an extra burden of complying with corporate anti-corruption measures due to Ukraine's low international ranking on corruption.

Despite recent efforts by the government and support from international donors, corruption is still viewed as the norm in many circles. Therefore, Ukraine must continue to implement anti-corruption reforms to become more attractive to new investors. Key actions include strengthening transparency and the rule of law, as well as expanding digitalization to minimize corruption risks.¹⁵

Lesson 4: The lack of resolution of final political status impedes reconstruction and private investments

The lack of resolution of final political status impedes reconstruction. It is particularly problematic for investors because it adds to the uncertainty. Investors want to know whether the investments made today will be safeguarded in the future and whether future governments will respect the agreements they make today. This uncertainty impedes economic growth and post-war recovery, particularly for the private sector. In Kosovo, the uncertain status of Kosovo as part of a sovereign Serbia and Montenegro under an indefinite UN interim protectorate has created great uncertainty

¹⁵ Chamber of Commerce. *A New Ukraine: A Vision for the Future*. Kyiv: American Chamber of Commerce in Ukraine, 2023. https://chamber.ua/wp-content/uploads/2023/04/A-New-Ukraine_Eng_Online_FINAL.pdf.

about what the final status might be. There was no broad political consensus on a final status direction toward independence or reintegration with Serbia and Montenegro.

Similarly, in Iraq, where the US presence was provisional, the lack of clarity of decision-making authority for the long term has impeded development. There was no competent government-in-exile to assume the reins at the end of the conflict, so a temporary solution was unavoidable. Nonetheless, assistance efforts must recognize the importance of building certainty into reconstruction processes to the extent possible.

In the context of Ukraine

In the Ukrainian context, an end to hostilities that leaves uncertainty over the future status of some territories is likely to affect private investment. Consultations with Ukrainian businesses indicate that they view a lack of clear understanding of future boundaries as a block to investment decisions.

This is particularly the case in the transportation sector. Reconstruction of transportation routes is crucial to rebuilding Ukraine's infrastructure and establishing future import-export routes. However, it is difficult to make informed decisions about where to invest without a clear understanding of territorial boundaries. The territorial settlement – or the absence of one – will significantly affect the transportation routes necessary to support the reconstruction efforts and establish post-war import-export operations in Ukraine.

Lesson 5: In the financial sector, policies should prioritize creating a basic payments system and establishing a rudimentary regulatory regime over the private banking industry

Lesson 5 highlights the importance of prioritizing the establishment of a functional banking system and regulatory regime over developing a sophisticated financial market in the aftermath of conflict. The focus must be on creating a basic payment system that can provide payment services and intermediation between savers and investors. Transparency, prevention of government direction of lending, and bad loan provisioning must also be ensured through proper rules and regulations.

Kosovo is a successful example of establishing modern banking and financial market institutions with the help of foreign experts. For instance, the Kosovo Pension Savings Trust, a modern funded pension institution, was established with the assistance of foreign experts who serve on the governing board and make investment decisions. Kosovo also has a modern electronic payment clearing system and licensing standards that ensure high banking standards. Much attention has been given to improving bank capacity in Iraq, although progress has been slow due to difficult starting conditions. At the beginning of the reconstruction efforts, most banks did not even communicate electronically with their branches.

In the context of Ukraine

The issue of establishing a functional banking system is less relevant in Ukraine, as even during the conflict, the banking system remained strong and operated without any functional limitations. Almost all banks, including those not deemed systematically important, continued to operate, providing financing and payment support to keep the economy fully operational. The country was able to collect income from taxes, make social security payments, receive international assistance, and raise billions of hryvnias to support the armed forces.¹⁶ Therefore, this lesson will become even less relevant once the war is over in Ukraine.

Lesson 6: Creating an enabling tariff regulatory framework to encourage private sector investments in infrastructure

In the aftermath of a war, it is essential to establish a regulatory framework for tariff setting that enables the recovery of reconstruction investments in the future. Such a regulatory regime would provide confidence to investors and encourage them to allocate significant capital toward a comprehensive and efficient reconstruction process.

This principle can be observed in the case of New Zealand, where publicly-owned companies operate in a commercially-driven manner due to the nature of the electricity market. The Commerce Commission plays a role in regulating electricity prices, and non-exempt suppliers of electricity lines services are subject to these regulations. Following the earthquakes, Orion, an electricity distribution company, estimated the cost of permanent repairs to be US\$70 million. To recover their investments, Orion proposed a price increase and sought approval from the Commerce Commission. However, because the approved price increase was significantly lower than initially requested, Orion had to scale down their investments accordingly. The approval of requested tariffs by the Commerce Commission was based on the long-term benefits for consumers and their ability to accept the price increase.

This demonstrates that private sector involvement in reconstruction relies on enabling regulations and consumer acceptance of increased tariffs. Without a tariff regime that allows for investment recovery, private sector entities may hesitate to invest or be inclined to limit their investments to a level that ensures future recoverability. Therefore, establishing a regulatory framework that ensures the recovery of investments is crucial to attracting private sector participation and investment in post-war reconstruction efforts. This can be achieved by designing tariff regimes that balance consumers' interests and the need for sustainable and viable private-sector involvement.

¹⁶ International Monetary Fund. 2022. "How Ukraine Is Managing a War Economy." *IMF News*, December 20, 2022. <https://www.imf.org/en/News/Articles/2022/12/20/cf-how-ukraine-is-managing-a-war-economy>.

In the context of Ukraine

The issue of tariff setting regime and private sector involvement in infrastructure development is of particular significance in the context of Ukraine. Before the war, the lack of private investments in water and sanitation infrastructure was strikingly evident, primarily because the tariff regime established by the government did not provide a means for companies to recover their investments. This limitation hindered the participation of private entities in developing and improving water and sanitation systems.

In contrast, the electricity distribution sector witnessed a relatively higher level of private sector participation. This can be attributed, at least in part, to a different tariff regime that allowed companies to recover their investments over time. The favorable tariff structure provided assurance to private investors that their capital would be recuperated, creating a more conducive environment for private sector engagement and contribution to the development of the electricity distribution infrastructure.

To effectively attract private sector investments in infrastructure, the Government of Ukraine must prioritize the establishment of a favorable tariff-setting regime. Such a regime should provide adequate returns on investments and encourage private entities to actively engage in infrastructure reconstruction projects. Without a favorable tariff regime that addresses the concerns of potential investors, there is a risk that private sector entities will be hesitant to participate in infrastructure reconstruction efforts or significantly scale down their investments. The government's role in ensuring an enabling regulatory framework and transparent tariff policies is crucial to instilling confidence in investors, attracting their capital, and fostering sustainable infrastructure development in Ukraine.

Conclusions

Post-war and disaster reconstruction is a multifaceted process that requires a strategic and adaptive approach. A key lesson from past efforts is that community engagement and local leadership are essential for sustainable recovery. Reconstruction projects that empower local populations tend to achieve greater success and long-term stability compared to top-down interventions. Another crucial insight is the need to balance urgency with sustainability. While immediate relief efforts are necessary, long-term planning and resilience-building are equally critical to prevent future vulnerabilities. The principle of "building back better" should be prioritized to ensure that infrastructure, institutions, and social systems are more robust than before the crisis. Additionally, economic revitalization plays a fundamental role in recovery. Job creation, investment in small businesses,

and targeted financial aid contribute to social stability and economic growth. However, for these measures to be effective, strong governance, transparency, and anti-corruption mechanisms must be in place to ensure efficient use of resources.

Lastly, post-crisis recovery efforts must integrate mental health support and social cohesion initiatives. The psychological impact of war and disasters can have long-lasting effects, and addressing trauma through comprehensive support systems enhances community resilience. Overall, the most effective reconstruction efforts are those that take a holistic, inclusive, and forward-thinking approach. By learning from past successes and failures, policymakers and practitioners can develop more effective strategies that foster not only reconstruction but also long-term stability and prosperity.

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