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THE ROLE OF PROJECT FINANCING IN THE RECONSTRUCTION OF UKRAINE

In the current context, as Ukraine remains in a state of full-scale war and is simultaneously compelled to restore critical infrastructure, the attraction of funds based on project financing is of particular importance.

The purpose of the paper is to summarize the accumulated experience of attracting capital on the terms of project financing and to suggest ways to activate it for the purpose of rebuilding Ukraine.

The paper substantiates the importance of project financing for the reconstruction of Ukraine. It examines the support mechanism for Ukraine, which includes three main directions: financial support for Ukraine through the provision of grants and loans conditional on public administration reform, good governance, the rule of law, anti-corruption measures, and effective financial management; special investment frameworks for Ukraine; and technical assistance along with other types of bilateral aid. The paper explores the priorities and advantages of project financing. It outlines the specifics of various types of project financing, including public-private partnerships, venture financing, and project financing involving international financial institutions.

Ukraine's reconstruction must combine the stability and determination of the state, support from domestic businesses, and international partners. It is important to attract international investors and companies by providing guarantees, safety standards, reliable insurance, the rule of law, and transparent selection procedures. Exchanging experiences and adopting best practices from EU countries can help improve project financing models, particularly public-private partnerships, for Ukraine's reconstruction.

Keywords: *project financing, investment, international financial institutions, public-private partnership, venture financing*

INTRODUCTION

In the current context, as Ukraine remains in a state of full-scale war and is simultaneously compelled to restore critical infrastructure, the attraction of funds based on project financing is of particular importance. Project-based funding enables the efficient allocation of financial resources to specific projects in infrastructure, energy, housing construction, agriculture, and other sectors that are crucial for the country's recovery. Project financing involves targeted use of funds, which reduces the risks of inefficient or inappropriate spending while also enhancing transparency and oversight of project implementation.

One of the main advantages of this approach is the ability to attract private capital through public-private partnerships, which is especially relevant given the limited capacity of the state budget. At the same time, the financial risks for the government are reduced, as the repayment of investments depends not on the overall condition of the economy but on the profitability of the specific project.

Moreover, project financing helps build trust among international partners and institutions, as a clear structure, transparent management mechanisms, and the presence of guarantees create a favourable environment for investment. Studying international experience, exchanging best practices, and cooperating with international financial institutions make it possible to establish a modern and effective model of project financing that can serve as a foundation for Ukraine's sustainable economic growth. Thus, project financing can be

not only a source of financial resources but also a strategic tool for the modernization of the country.

The features of capital raising based on project financing are described in the works of both foreign and domestic scientists. For example, S. Hatti, Yu. Holovnia, L. Hrytsenko, Yu. Kotelnikova, S. Mishchenko, S. Naumenkova, T. Peters, O. Pysarchuk, R. Tinsley, E. Tyshchenko, O. Tverezovska studied various aspects of project financing in their studies. However, despite the substantial academic contributions to this topic, the full range of specific features and the importance of using project financing for Ukraine's recovery has not yet been comprehensively explored.

The **PURPOSE** of the paper is to summarize the accumulated experience of attracting capital on the terms of project financing and to suggest ways to activate it for the purpose of rebuilding Ukraine.

METHODS OF THE RESEARCH

In the research process, general scientific and special methods were used: induction and deduction – at the stage of collecting, systematizing and processing information; analysis and synthesis – to identify the main trends; abstract-logical – to generalize information from various sources and create a comprehensive understanding of the problem under study, forming theoretical conclusions and generalizations.

RESULTS

In modern conditions, the problem of lack of resources is particularly relevant. As a result of active hostilities, some

businesses have lost their assets, some enterprises have been relocated to the central and western regions of the country, critical infrastructure facilities have been destroyed, etc. Solving these problems requires attracting significant amounts of funds.

The total direct damage caused to Ukraine's infrastructure as a result of Russia's full-scale invasion has reached almost \$ 170 billion (table 1). The housing sector remains the most affected – direct losses are estimated at \$ 60 billion. The transport infrastructure suffered significant losses – \$38.5 billion. Ukraine's energy sector lost \$ 14.6 billion. The attacks completely destroyed the Kakhovka and Dniprovsk hydroelectric power plants. Industry, construction, and the service sector suffered losses of \$ 14.4 billion. The agro-industrial complex also suffered significant damage, with losses amounting to \$ 10.3 billion. Losses to educational infrastructure are estimated at \$ 7.3 billion. During the period of the full-scale invasion, more than 4 thousand educational institutions were damaged or destroyed, including 97 universities. Healthcare lost \$ 4.3 billion. 1,554 medical facilities were damaged. Cultural heritage, sports and tourist facilities suffered damage worth \$ 4 billion [1].

So, the lack of financial resources is becoming a bigger issue, while the demand for projects that solve economic and social problems is also growing. Due to the difficult financial situation of businesses and the limited resources of state and local budgets during wartime, it is important to find alternative ways to attract funding. One such method is project funding.

It allows companies, even those without a strong financial background, to secure funds for large, long-term projects. Investors who finance these projects are paid back from the project's revenue. Project funding helps businesses raise capital for growth and development.

It is important to consider the risks of project financing. Pre-investment assessment of an investment project involves an assessment of project risks. The specificity of project financing risk assessment is to identify three main groups of risks depending on the phase of investment project implementation [3; 8]:

- risks of designing an investment project;
- risks of implementing an investment project;
- risks of the results of an investment project.

The advantages of project financing are shown in Fig. 1.

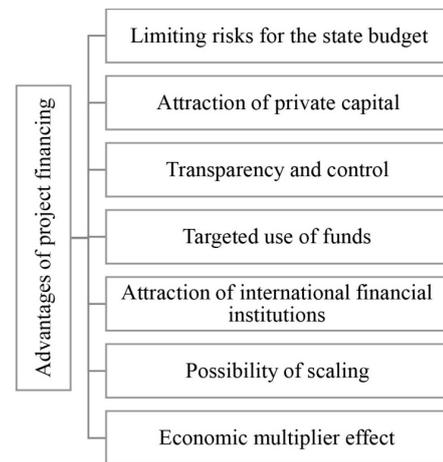


Fig. 1. Advantages of project financing [12]

Project financing allows raising funds for a specific project without a direct burden on the state debt; creates an opportunity for the effective use of private sector resources for the implementation of large-scale infrastructure or energy projects. Partnership between the state and private investors (Public-Private Partnership, PPP) is possible. Project-based financing involves careful planning, auditing, and control, which reduces the risks of corruption. Project development and implementation require the strengthening of managerial and technical skills, which stimulates human capital development and promotes adaptation to international project management standards. Funds are used exclusively for specific project tasks, so there is minimal risk of misuse of resources.

The World Bank, EBRD, IFC and others provide support in the form of project financing. This increases investors' confidence in the country. After the successful implementation of one project, the model can be repeated in other regions of the country or for other areas (energy, transport, social infrastructure). The implementation of projects stimulates related industries: materials production, logistics, employment and contributes to the revitalization of the regional economy.

The post-war recovery of Ukraine is not only linked to the restoration of destroyed infrastructure, the reconstruction of material assets, and their effective integration into economic reproduction but also to qualitative changes in the model of economic life, the renewal of institutions and economic structures. This will enable Ukraine to assert its organic role as a

Table 1 – Overall assessment of direct damage to Ukraine's infrastructure as of November 2024 [1]

Property type	Estimated direct losses, \$ billion	Share in total, %
Residential buildings	60,0	35,3
Infrastructure	38,5	22,7
Energy	14,6	8,6
Enterprise assets, industry	14,4	8,5
Agriculture and land resources	10,3	6,1
Education	7,3	4,3
Forest fund	4,5	2,7
Healthcare	4,3	2,5
Culture, tourism, sports	4,0	2,3
Housing and communal services	3,5	2,0
Vehicles	3,5	2,0
Trade	2,8	1,7
Digital infrastructure	1,2	0,7
Administrative buildings	0,8	0,4
Social sphere	0,2	0,1
Financial sector	0,04	0,01
Total	169,8	100

component of a highly efficient and inclusive competitive economy of modern Europe. Theoretical approaches to financing post-war recovery can be divided into several main categories. The first category includes traditional methods, such as government financing through budgetary allocations and international loans. These methods are often used for the restoration of basic infrastructure and the provision of essential social services. The second category encompasses innovative financial instruments, such as bonds, PPPs, and development funds. International experience shows that successful post-war recovery depends on a combination of different financial instruments and approaches. E.g., after World War II, a key element in the recovery of Western Europe was the Marshall Plan, which combined substantial American investments with effective local reconstruction strategies [6].

According to a joint assessment published by the Government of Ukraine, the World Bank Group, the European Commission, and the United Nations in March 2023, Ukraine's reconstruction and recovery needs amount to \$ 411 billion (equivalent to € 383 billion) [10]. This estimate covers only a one-year period, from the Russian invasion until the first anniversary of the war on February 24, 2023. These figures have risen even higher due to ongoing Russian attacks, including the bombing of Ukraine's energy infrastructure and the catastrophic destruction of the Kakhovka Dam. The longer the war continues, the more the costs will increase.

The support mechanism for Ukraine consists of three main components: financial support for Ukraine through the provision of grants and loans, conditional on the implementation of public administration reform, good governance, the rule of law, anti-corruption measures, and effective financial management; a dedicated investment framework for Ukraine, including the establishment of a special guarantee for Ukraine amounting to up to € 8.9 billion, separate from the current External Action Guarantee (EAG) under the European Fund for Sustainable Development; technical assistance and other supportive measures, including the mobilization of reform expertise, support for municipalities, civil society, and other forms of bilateral assistance typically provided to countries in the process of preparing for EU accession under the Instrument for Pre-Accession Assistance (IPA) [7].

An important mechanism for raising funds is project financing with all its features. The use of this approach makes it possible to attract investment sources and apply organizational methods for allocating funds. International experience shows that project financing is a successful tool for developing and maintaining an economy at a sustainable level. In practice, numerous methods of project financing are used, each with its own advantages and disadvantages. The Ukrainian economy requires a steady inflow of investments. To implement effective project financing, Ukraine needs to adopt the best practices of foreign countries [4].

Let's look at some types of project funding. A common type of project funding is venture financing. Venture financing works by bringing together the money of some entrepreneurs and the ideas or technologies of others to create a new business and make a profit. Venture funds act as a link between investors who are willing to take risks and the companies that receive the investment.

The venture investor takes an active part in the work on the project and assists in matters related not only to finance but also in the areas of law, marketing, HR, project management, etc. Also important is the fact that startups who have

achieved success, successfully sold their startup and then invested their money, experience, knowledge and connections in new innovative projects act as venture investors. This is the main difference between ordinary investors and venture.

Another type of project funding is PPP. Cooperation between the government and businesses helps attract large investments into key areas of the national economy. This partnership benefits both sides: businesses get access to government resources and infrastructure, while the state can complete important projects without spending too much of its own limited budget and reducing risks.

The success of such partnerships depends not only on the number of agreements signed but also on other important factors. One key step is improving the legal framework to clearly define the rights and responsibilities of both parties. Another important factor is learning from international experience and adapting it to Ukraine's needs. This approach will help boost not only public-private partnerships but also overall investment and innovation in the country.

International financial institutions play a key role in funding and supporting projects in different industries. Organizations like the International Monetary Fund (IMF), the World Bank, and the European Bank for Reconstruction and Development (EBRD) provide money to help countries grow economically and socially.

The World Bank Group is one of the world's largest sources of finance and knowledge for developing countries. Its five institutions share a commitment to reducing poverty, increasing shared prosperity, and promoting sustainable development. Institutions of the World Bank Group: International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA), International Centre for Settlement of Investment Disputes (ICSID) [9].

In Ukraine, the biggest lender is the EBRD, which has invested over \$ 1.7 billion in private businesses since the start of the full-scale war. By the end of 2023, the EBRD increased its budget for projects in Ukraine to €4 billion. Currently, its main priorities include ensuring energy security, rebuilding important infrastructure, ensuring food supplies, and supporting trade [2].

The World Bank and the IBRD are running a program called "Emergency Project for Inclusive Support to Agriculture Recovery in Ukraine" (ARISE). This project offers \$ 1.5 billion in funding for 2023-2024 to help farmers, including small agricultural businesses. Since March 2022, the European Investment Bank (EIB) has provided €1.7 billion, mainly through loans and guarantees for small and medium-sized businesses. The European Investment Bank focuses mostly on projects related to agriculture and transport [2].

In the context of discussing and implementing the comprehensive economic development plan – the Ukraine Facility Plan – special attention should be given to the mechanism for implementing long-term investment projects aimed at accelerating Ukraine's recovery. Within the framework of this comprehensive economic development plan, the project financing mechanism requires particular focus. The implementation of large-scale projects, in line with the defined medium-term priorities for Ukraine's economic recovery, should be based on the introduction of strategic planning for public investments, coordinated with medium-term budget planning. In this regard, the interaction between bodies and

institutions involved in the development and implementation of the Ukraine Facility Plan at both the national and regional levels requires proper coordination and should be oriented toward the effective implementation of public investment policy. To protect the interests of foreign investors and safeguard against unforeseen losses in the implementation of long-term investment decisions during the post-war recovery period, instruments of the World Bank Group may be utilized [5].

The development of the national economy requires the implementation of large-scale and effective eco-projects and the concentration of financial resources. Such a process, especially eco-project implementation has a significant impact on accelerating the modernization of the economy, increasing its competitiveness and investment attractiveness for the successful ecological post-war recovery and future sustainable economic and investment development in Ukraine. The possible future eco-project directions could focus on energy system integration; hydrogen projects; support of green ag-

riculture; green metallurgy; green reconstruction and transformation of cities; restoration of rivers to their natural state; "blue" projects (protection of marine biodiversity, coastal strips); circular projects (sorting of household waste, right to repair, etc.); creating a green building ecosystem [11].

CONCLUSIONS

The construction of infrastructure projects in various sectors of the economy requires large investments. One important source of funding can be project-based financing. Ukraine's reconstruction must combine the stability and determination of the state, support from domestic businesses, and international partners. It is important to attract international investors and companies by providing guarantees, safety standards, reliable insurance, the rule of law, and transparent selection procedures.

Exchanging experiences and adopting best practices from EU countries can help improve project financing models, particularly public-private partnerships, for Ukraine's reconstruction.

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РОЛЬ ПРОЄКТНОГО ФІНАНСУВАННЯ У ВІДБУДОВІ УКРАЇНИ

В умовах, коли Україна перебуває у стані повномасштабної війни та водночас змушена відновлювати критичну інфраструктуру, залучення коштів на умовах проєктного фінансування набуває особливого значення.

Мета статті – узагальнення накопиченого досвіду залучення капіталу на умовах проєктного фінансування та напрацювання шляхів активізації проєктного фінансування задля відбудови України.

У статті розглянуто механізм підтримки України, який включає три основні напрями: фінансову підтримку шляхом надання грантів і кредитів за умови проведення реформ у сфері державного управління, дотримання принципів належного врядування, верховенства права, антикорупційних заходів та ефективного фінансового менеджменту; створення спеціальних інвестиційних рамок для України; а також надання технічної допомоги та інших видів двосторонньої підтримки. Досліджено пріоритети та переваги проєктного фінансування. Висвітлено специфіку різних видів проєктного фінансування, зокрема державно-приватного партнерства, венчурного фінансування та фінансування за участі міжнародних фінансових інституцій. Міжнародний валютний фонд (МВФ), Світовий банк, Європейський банк реконструкції та розвитку (ЄБРР) та інші міжнародні фінансові інституції надають фінансову підтримку проєктам, що сприяють економічному та соціальному розвитку країн.

У висновках наголошено на необхідності залучення міжнародних інвесторів і компаній шляхом надання гарантій, дотримання стандартів безпеки, надійного страхування, верховенства права та прозорих процедур відбору. Відбудова України має поєднувати стабільність і рішучість держави, підтримку вітчизняного бізнесу та міжнародних партнерів. Обмін досвідом і впровадження найкращих практик країн ЄС можуть сприяти вдосконаленню моделей проєктного фінансування, зокрема державно-приватного партнерства, для потреб відбудови України.

Ключові слова: проєктне фінансування, інвестиції, міжнародні фінансові інституції, державно-приватне партнерство, венчурне фінансування