Institutional Architecture of Business Financing: International and National Structure

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Acronyms and Abbreviations

BGK	Bank Gospodarstwa Krajowego
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
CapEx	Capital Expenditures
DAI	Development Alternatives Inc.
DANIDA	Danish International Development Agency
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFC	US International Development Finance Corporation
DFI	Development Finance Institution
E5P	Eastern Europe Energy Efficiency and Environment Partnership
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
EIFO	Export and Investment Fund of Denmark
ESG	Environmental, Social, and Governance
EU	European Union
FCDO	Foreign, Commonwealth & Development Office
Finnfund	Finnish Fund for Development Finance
FMO	Dutch development bank
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HACCP	Hazard Analysis and Critical Control Points
ICU	Investment Capital Ukraine
IFC	International Finance Corporation
IFI	International Financial Institution
IFO	International Financial Organizations
IFRS	International Financial Reporting Standards
INGO	International Non-Governmental Organization
ISO	International Organization for Standardization
ITA	International Technical Assistance
KfW	Kreditanstalt für Wiederaufbau
LLC	Limited Liability Company
M&A	Mergers and Acquisitions
MIGA	Multilateral Investment Guarantee Agency
NBU	National Bank of Ukraine
NEFCO	Nordic Environment Finance Corporation

NIB	Nordic Investment Bank
NORAD	Norwegian Agency for Development Cooperation
OpEx	Operational Expenditures
PwC	PricewaterhouseCoopers
R&D	Research and Development
SACE	Servizi Assicurativi del Commercio Estero
SME	Small and Medium-sized Enterprise
SPVs	Special Purpose Vehicles
Swedfund	Swedish Development Finance Institution
UIF	Ukrainian Investment Framework
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
USAID CEP	USAID Competitive Economy Program

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Institutional Architecture of Business Financing: International and National Structure

Business access to external financing in Ukraine is organized within a multi-tiered institutional framework comprising various participants: International Financial Institutions (IFIs), Development Finance Institutions (DFIs), donor platforms, government agencies, local banks, and implementing partners. Each entity fulfills a specific role in the overall system that mobilizes capital for the private sector, using different tools – loans, equity investments, guarantees, technical assistance, blended finance, or direct subsidies.

International Financial Institutions (IFIs), such as the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the World Bank (through IBRD and IFC), the Black Sea Trade and Development Bank (BSTDB), and the Nordic Investment Bank (NIB), operate under multilateral intergovernmental mandates. Their activities encompass both the public and private sectors. Their main tools include lending – either through banks or directly – guarantees, equity stakes, export support, green transformation financing, and infrastructure modernization programs. Usually, IFIs run programs based on agreements with the Ukrainian government, state banks, or designated implementation platforms, such as the Entrepreneurship Development Fund or state banks like Ukrgasbank and Oschadbank. They also serve as a resource pool for credit lines through authorized financial institutions or run targeted sector-specific programs in energy, transport, agribusiness, and municipal development infrastructure.[1]

Development Finance Institutions (DFIs), including DFC (US), KfW (Germany), FMO (Netherlands), Swedfund (Sweden), Proparco (France), and Finnfund (Finland), serve as tools of foreign bilateral economic policy for individual nations. Their goal is to encourage the mobilization of private capital in countries with high investment risks or strategic importance. Unlike IFIs, DFIs enjoy greater flexibility in their financing methods: they can directly invest in private companies, including small and medium-sized enterprises (SMEs), take equity stakes, use mixed financing approaches, combine grants and loans, and collaborate with local implementers – such as private equity funds (Horizon Capital, ICU), banking intermediaries, or platform structures. Often, DFIs execute bilateral programs in partnership with the Ukrainian government – for instance, DFC initiatives for strategic investments under intergovernmental agreements with the US or FMO projects through Ukrainian banks and funds supported by Dutch cooperation programs. These bilateral arrangements often include political or strategic conditions, such as focusing on specific sectors, ensuring transparency in project management, and complying with environmental, social, and governance (ESG) standards, among others.

Multi-donor platforms and instruments of the European Union, including EFSD+, EU4Business, ReACT4UA, E5P, InnovFin, and Horizon Europe, among others, pool resources from multiple countries or international organizations to finance specific priorities such as small business modernization, digitalization, green transformation, innovation, and exports. These platforms are implemented through funds (e.g., NEFCO – Nordic Environment Finance Corporation), national banks, implementing organizations (such as GIZ, UNDP, PwC, and Deloitte), or they provide grants directly to businesses. Most of these programs offer technical assistance, particularly in developing business plans, assessing investment readiness, conducting certifications, establishing ESG standards, or digital management reporting systems.

[1] EBRD, access: https://www.ebrd.com/home/news-and-events/news/2025/EBRD-deploys-record--2-4-billion-in-Ukraine-in-2024.html

The national architecture encompasses **Ukrainian banks** (both state-owned and private), government support programs (e.g., the "5–7–9%" initiative, National Export Credit Agency mechanisms), and implementation funds, such as the Entrepreneurship Development Fund or the Ukraine Recovery Platform. These channels deliver external financing into the economy through targeted loans, portfolio guarantees, subsidized rates, or support for enhancing banks' institutional capacity.

Viewpoint on Ukrainian Investment Framework

To promote economic growth with financing, the Ukrainian Investment Framework (UIF),[2] as part of the broader Ukrainian Facility Plan, was introduced by the EU Commission (DG ENST) as a component of the EU's economic support program for Ukraine. It serves as a key tool for attracting international private capital to rebuild and modernize the Ukrainian economy. Its instruments include guarantees, blended finance, and technical assistance. The UIF operates as a coordination platform where international financial organizations (IFOs) – such as the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Kreditanstalt für Wiederaufbau (KfW), DFIs, and individual commercial banks – offer financial support to Ukrainian businesses.

Ukrainian companies can receive this support through the UIF program either directly, via IFOs or DFIs, or indirectly, through participating national banks.

Direct applications to IFIs are primarily feasible for large-scale projects with budgets exceeding $10 million that align with priority sectors (e.g., energy, transport, agriculture, industry) and meet the lenders' strategic objectives. Currently, there is no standardized application form for financing: each institution has its document requirements, including a business plan, financial statements, and a feasibility study.

Meanwhile, companies with projects valued between $3 and $5 million can apply to partner banks in Ukraine. These institutions serve as UIF operators at the national level, offering tailored lending or investment financing within established frameworks.

Depending on the source of funding, the legal framework may differ: agreements with Ukrainian creditors are expected to be signed under Ukrainian law, whereas agreements with development funds or IFIs are typically under English or other foreign law, depending on the creditor and other conditions.

In summary, the UIF is not a direct financing instrument but rather a framework program that grants access to capital through a network of intermediaries. Nonetheless, specific criteria must be met. Projects must align with the strategic priorities of creditors and go through formal selection procedures.

Accessibility of instruments: by the size of enterprises[3]

Micro and small businesses mostly gain access to external financing through local banks, blended finance programs, and grant instruments managed by foundations or donor organizations. The main barriers include

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[2] Minstry of Economy, access: https://me.gov.ua/News/Detail/94dadb57-1563-4986-addd-09a018c3535c?lang=uk-UA&title=UkraineInvestmentFramework-YakZaluchitiMizhnarodneFinansuvanniaUSviiBiznes

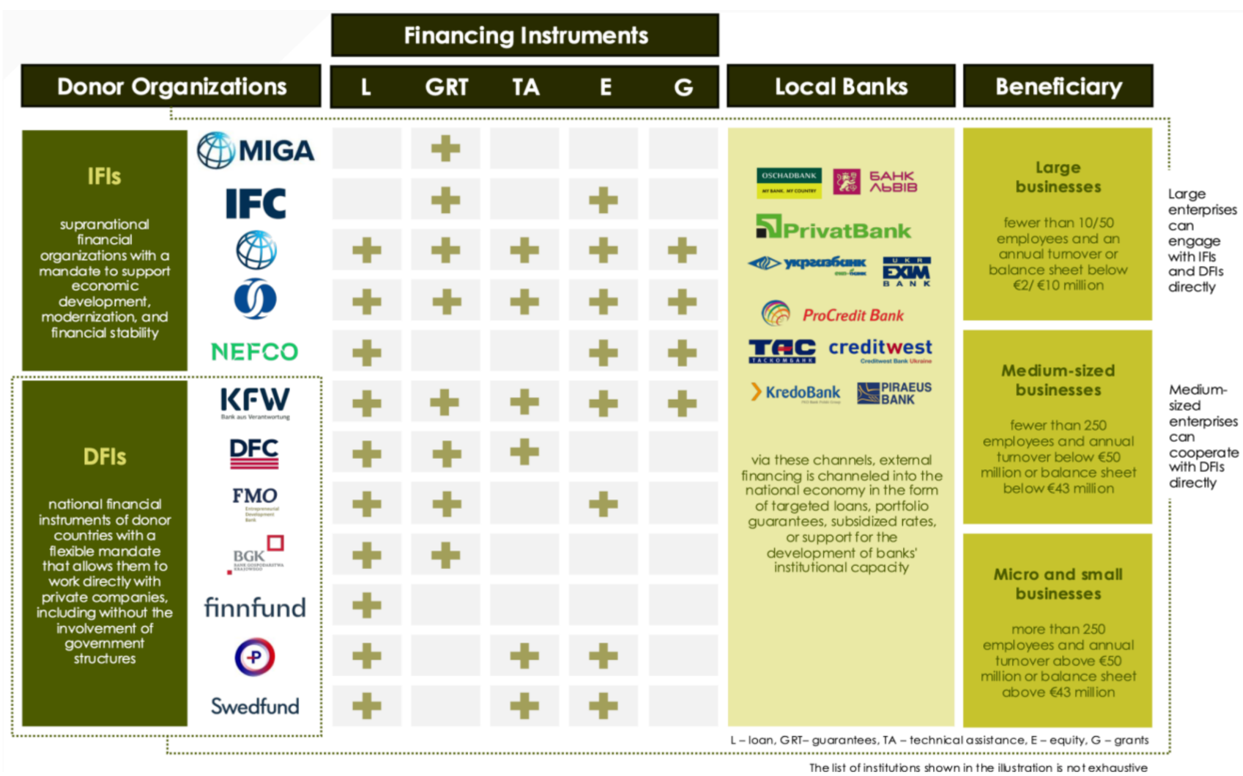
[3] Breakdown by:

- Micro enterprise: fewer than 10 employees and an annual turnover or balance sheet below €2 million.
- Small enterprise: fewer than 50 employees and an annual turnover or balance sheet below €10 million.
- Medium-sized enterprise: fewer than 250 employees and annual turnover below €50 million or balance sheet below €43 million.
- Large enterprise: more than 250 employees and annual turnover above €50 million or balance sheet above €43 million.

limited access to collateral,[4] insufficient preparation of project documentation,[5] and lack of history of cooperation[6] with international donors. Programs such as EU4Business, technical assistance from GIZ, or grant components from NEFCO are the primary support channels for this segment.[7]

Medium-sized businesses have a wider range of opportunities, including access to EBRD and EIB credit lines, as well as DFI programs with direct financing components.[8] This segment usually meets the criteria for investment maturity but needs institutional strengthening, particularly in terms of ESG compliance,[9] [10] reporting structuring, or corporate governance. Programs from the IFC, FMO, Proparco, and joint initiatives with private equity funds (e.g., Horizon Capital) often target this category.

Large businesses can directly attract investments from IFIs and DFIs through debt or equity financing. Projects of this size are typically structured as public-private partnerships, infrastructure projects, or export-focused production.[11] The requirements for this segment are the strictest: the presence of internal compliance systems, audited financial statements, adherence to international ESG standards, and transparency of corporate structures. Instruments from the IFC, DFC, KfW, as well as direct financial packages from EBRD and EIB, are best suited for this category.



[4] Laptiev, S., & Zakharov, O. (2025). The Impact of State Policy on The Economic Security of Enterprises in Ukraine: Current Challenges and Strategic Responses. *Economics Finance and Management Review*, 1(21), 29–42. https://doi.org/10.36690/2674-5208-2025-1-29-42
[5] BDO, access: https://www.bdo.ua/en-gb/news-1/2024/bdo-in-ukraines-tips-to-avoid-typical-mistakes-in-finding-project-financing
[6] VoxUkraine, access: https://voxukraine.org/en/donors-and-ukrainian-organizations-how-the-relationship-have-evolved-during-wartime
[7] Moving Forward Together, access: https://eu4ukraine.eu/media-ua/publications-ua/support-for-smes-of-ukraine-ua.html
[8] E.g., IFC, access: https://www.ifc.org/en/pressroom/2025/ifc-and-ukrsibbank-join-forces-to-boost-medium-sized-and-larger-corporates-in-ukra
[9] EBRD LIT, access: https://2024.lit-ebrd.com/articles/
[10] Green Transition Office, access: https://gto.dixigroup.org/en/news/vid-omnibusu-do-ukrainskykh-realii-iak-zminiuiutsia-esg-standarty-ta-choho-chekaty-biznesu
[11] PwC, access: https://www.pwc.com/ua/en/publications/2025/exploring-reconstruction-investment-opportunities-ukraine.html

Domestic financing of businesses in Ukraine

Despite the nominal availability of bank loans, Ukraine's domestic financial system does not provide businesses with access to long-term capital. Banks mainly serve as providers of short-term liquidity rather than sources of funding for development, modernization, or capital-heavy investment projects. The structure of banking products – term, cost, and collateral – does not align with the needs of the investment cycle. These issues are not only temporary, caused by the war, but are fundamentally rooted in the structure of the banking system.

Micro and small enterprises

Critical barriers for microbusinesses remain, including a lack of liquid collateral, a short operating track record, fragmented or incomplete reporting, limited financial resources, and a lack of expertise in preparing requests for investment financing. According to the NBU, in 2024, the average interest rate on loans for SMEs was 16–20% per annum,[12] in the absence of collateral, it was 22–24%. At the same time, the loan term usually does not exceed 12 months. Thus, in 2024, 55% of entrepreneurs surveyed as part of the United Nations Development Programme (UNDP) project "Support to Ukraine" noted excessively high interest rates on loans as one of the most significant obstacles to the development of economic activity.[13]

Even within the framework of the "Affordable Loans 5–7–9%" program, the vast majority of funds are directed toward replenishing working capital. According to official information from the Ministry of Finance, more than 90% of loans under the program in 2023 were not investment-related.[14] The lack of access to modern equipment, international markets, business networks, and expert support for preparing business plans significantly limits the investment potential of this segment.

On the separate note, Ukrainian SMEs can benefit from the national programme "eRobota," which offers grants ranging from UAH 250,000 to UAH 8 million, depending on the specific initiative. The programme targets micro- and small businesses, manufacturers, and veteran-led enterprises, and is designed to support the implementation of projects that stimulate job creation and local economic activity.

Medium-sized enterprises

Medium-sized enterprises primarily face institutional barriers, including informal ownership structures, a lack of consolidated management and financial reporting, and a low level of internal financial control. Loan rates range from 18% to 21% per year. Terms generally do not exceed 18 months. Without adequate collateral, access to resources is either much more difficult or entirely unavailable. The primary issue is the lack of tools for banks to assess future cash flows accurately. Financing is not connected to project profitability, business plans, or a forecast model of return on investment.[15] Credit decisions are made solely based on the borrower's current financial condition, without considering the potential of the project itself. The project financing model is almost non-existent in the Ukrainian banking sector – banks do not create special purpose vehicles (SPVs), do not structure limited recourse, and do not perform independent assessments of project viability.

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[12] NBU, access: https://bank.gov.ua/files/4-Financial_markets.xlsx
[13] Liga,net, access: https://biz.ligazakon.net/news/228953_ctan-ta-potrebi-bznesu-v-umovakh-vyni---rezultati-dosldzhennya
[14] MOF, access: https://mof.gov.ua/uk/news/minfin_za_chas_dii_voiennogo_stanu_pidpriiemtsi_otrimali_60_317_kreditiv_na_2375_mlrd_grn_za_programoiu_dostupni_krediti_5-7-9-4780
[15] CES, access: https://ces.org.ua/en/how-to-facilitate-corporate-lending-in-ukraine-causes-of-stagnation-and-policy-recommendations

As a result, projects valued at €5–50 million with a 3–7-year implementation timeline remain outside the scope of bank financing. The lack of mechanisms for assessing risk profiles, structured participation, or partial risk sharing causes this segment to be overlooked entirely by the domestic financial sector.

Large enterprises

Formally, large companies have access to a broader range of banking products. However, in practice, the domestic market is unable to provide financing for large projects. According to Chief Corporate and SME Business Officer at Privat Bank Yevhen Zaigrayev, in 2022, the share of bank loans issued to large companies was only 14%,[16] which indicates the relatively low operational capacity of banks to work with large-scale initiatives. Over the following years, the share of SMEs in banks' portfolios continued to grow.[17] In addition, in the second quarter of 2025, it is planned to tighten credit standards for large enterprises and foreign currency loans.[18]

The main issue is the absence of a functioning capital market. No bank serves as an institutional investor, has a mandate, or technical capacity to participate in capital, implement convertible debt instruments, or arrange for deferred repayment structures. Financing models that involve participation in profit, such as revenue-based financing or subordinated debt with deferred amortization, are not utilized.

The structure of banks' balance sheets relies on short-term liabilities, mostly up to three years, which prevents the formation of large long-term portfolios. Risk standards prevent participation in project structures or deviations from traditional collateral models.[19] Lending for projects over $100 million in the energy, transport, and processing sectors remains blocked not only because of macroeconomic instability but also due to the structural weaknesses of the financial system. Therefore, current banking practices lack instruments that could enable financing to be aligned with the investment cycle, such as partial risk-sharing mechanisms, structured amortization, profit sharing, or option-based repayment schemes – none of which are currently utilized in the market. According to Tetiana Koliasko, advisor to the head of the SME Support Office, “until the end of the war, it is unlikely that we can talk about the restoration of long-term financing that would have the characteristics of investment lending”,[20] which indicates not only macro risks, but also a profound lack of functional infrastructure for financing development.

International Financial Institutions (IFIs)

IFI as an investor

International financial institutions play a crucial role in shaping access to long-term capital. They operate as supranational financial organizations with a mandate to support economic development, modernization, and financial stability, especially by addressing market imbalances that hinder the private sector's ability to fund long-term or socially essential projects. The main IFIs for Ukraine are the EBRD, the International Finance Corporation (IFC), the European Investment Bank (EIB), and the EU Commission, which acts as a program coordinator through mandate funds like EFSD+. The average investment “ticket” of IFIs exceeds €10 million, and these institutions can serve as lead investors or co-finance large projects alongside public or private funds.

[16] MinFin, access: https://minfin.com.ua/ua/credits/articles/27-godovyh-i-vyshe-kak-banki-budut-kreditovat-bolshoy-i-malyy-biznes-v-2023-godu/
[17] NBU, access: https://bank.gov.ua/ua/news/all/oglyad-bankivskogo-sektoru-lyutiy-2025-roku
[18] NBU, access: https://bank.gov.ua/ua/news/all/banki-ochikuyut-zrostannya-kredituvannya-ta-vpershe-z-pochatku-povnomasshtabnoyi-viyni-prognozuyut-pidvischennya-yakosti-portfelya--opituvannya-pro-umovi-bankivskogo-kredituvannya
[19] UkrPravda, access: https://epravda.com.ua/columns/2024/03/20/711411/
[20] MinFin, access: https://minfin.com.ua/ua/credits/articles/27-godovyh-i-vyshe-kak-banki-budut-kreditovat-bolshoy-i-malyy-biznes-v-2023-godu/

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Such operations hold significant institutional value – IFI participation automatically brings the project under international oversight, thereby lowering the risk premium for other investors.

Between 2020 and 2024, the EIB provided Ukrainian banks with over €190 million in financing, including €125.1 million through Ukreximbank, €33.1 million through Pravex Bank, and €30 million through ProCredit. These funds primarily supported SMEs involved in exports, innovation, and energy efficiency. Additionally, the European Commission, through the EU4Business and EFSD+ initiatives, has assisted more than 71,000 Ukrainian SMEs by providing access to funds, preferential loans, and consulting services. EFSD+ functions as a guarantee and blending tool, collaborating with the EIB, EBRD, and other partners.[21]

The institutions also work in partnership. For example, IFC projects can be financed alongside the EBRD,[22] and EFSD+ instruments can lower the risk of such investments. All major IFIs employ a two-tier financing model, either directly or through local financial intermediaries, such as banks or specialized development finance institutions (DFIs). Consequently, the effectiveness of these instruments relies directly on the operational capacity of Ukrainian banks to execute financing lines following IFI requirements.

European Commission provides mandates for financial institutions such as the EIB and EBRD, channelling EU funds and directly distributes funding via various financial tools

EBRD receives funding from its shareholder states and its own operations, lending it to private sector development, SME support, energy, and reforms

EIB raises funds from the capital markets and the EU budget in order to finance infrastructure projects, municipal transport, energy, and credit lines for banks

DFC is funded by the U.S. government to make investments in infrastructure, energy, digital technologies, and support for private businesses in partner countries

Thus, the primary instrument is long-term loans, typically with a maturity of 5-10 years (which varies depending on the institution: for example, the EBRD has an average term of 6 years),[23] which are provided to enterprises directly or through authorized financial institutions. When debt financing is too restrictive due to risk structures or capital requirements, IFIs use equity or quasi-equity instruments – such as direct investments in enterprise capital, convertible loans, subordinated loans, or other financing methods – that share risk with the beneficiary without relying on traditional collateral requirements.[24] Such instruments are primarily used for projects with scaling potential, a well-defined corporate structure, and prospects for entering foreign markets.

IFI guarantee instruments are designed to lower risk for private capital or partner banks. These include portfolio guarantees and coverage of parts of the risk of insolvency, contractual default, or political risk (through specialized structures such as MIGA). Such mechanisms enable the multiplication of financing volume by attracting commercial co-financing without requiring equivalent funds from IFIs. Technical assistance plays a crucial role in IFI practice, being integrated into financial programs and covering activities such as preparing business plans, auditing, implementing ESG standards, transitioning to IFRS reporting, strengthening

[21] DataDriven Report on International Development, access: https://res2.weblium.site/res/65649c2d2ea0b1000f9d831b/67ebf85d5f52b09140cba5c5
[22] E.g., Reuters, access: https://www.reuters.com/world/uk/ebrd-ifc-provide-435-mln-ukraines-newly-merged-telecoms-firm-2024-10-10
[23] EBRD, access: https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/treasury/investors-presentations/investment-of-choice.pdf&ved=2ahUKEwiB287yvv2NAxV5U1UIHf46OUUQFnoECBYQAQ&usg=AOvVaw024OCvQ0vYG-PnHTraOPK0
[24] E.g., IFC, access: https://www.ifc.org/content/dam/ifc/doc/2024/equity-factsheet-ifc-financial-institutions-group.pdf

management systems, and developing the institution. The goal of technical assistance is to reduce information asymmetry, enhance project quality, and create conditions for additional financing from various sources.

Limitations of IFI activities

Despite their significant institutional influence, the involvement of IFIs in business financing faces structural and operational limitations that diminish their impact, particularly in countries with unstable institutions, limited market conditions, and poor governance capacity.

I. **IFIs are highly selective.** Approval procedures involve a complex project assessment cycle, including financial and legal due diligence, ESG compliance checks, anti-corruption and anti-money laundering policies, as well as comprehensive risk evaluation. These requirements set a high entry barrier, especially for small and medium-sized enterprises.[25] [26]

II. **IFIs operate exclusively according to investment logic:** their instruments are not designed to cover short-term liquidity, working capital, or anti-crisis financing. Even in priority sectors, financing is only possible if there is a structured investment project with proven profitability, a clear implementation plan, and a long-term business model.

III. **International financial institutions have a slow decision-making cycle.** Even after approval, the period from the start of negotiations to the actual disbursement of funds can range from several months to six months. For example, the average time for providing financing after a World Bank application is considered to be 27 months,[27] which hinders their ability to participate in funding dynamic or provide support during crises.

IV. **IFI instruments are not always adapted to the national financing infrastructure.** When funding is distributed through local banks, the lack of close coordination and technical support reduces effectiveness, resulting in low coverage.

Finally, many IFI-supported projects are capital-intensive, one-time transactions that lack a large-scale multiplier effect. Without demand aggregation mechanisms such as portfolio programs, sectoral platforms, or blended finance initiatives, the impact of IFIs remains limited and does not foster a systemic environment for business financing.

Strategic role and advantages

Despite existing limitations, the participation of International Financial Institutions holds significant strategic value for the Ukrainian private sector. Primarily, the presence of IFIs in the project financing structure signals institutional trust,[28] which lowers the risk premium for commercial banks and private investors. Such projects are viewed as pre-verified for compliance with ESG standards, anti-corruption policies, and operational sustainability, thereby increasing the likelihood of attracting syndicated financing and gaining access to international capital markets. The second key benefit is access to long-term, hard currency capital.

The third advantage is structural flexibility. Unlike Ukrainian banks, which strictly require collateral, IFIs can utilize corporate financing models or offer financing with a grace period. This enables companies to develop a financial model aligned with the investment cycle and anticipated cash flow.[29] The fourth is technical assistance. Through projects involving IFIs, companies can access free or subsidized external audits, ESG policy

[25] UkrPravda, access: https://epravda.com.ua/columns/2024/03/20/711411/
[26] Dixi Group, access: https://dixigroup.org/en/analytic/monitoring-of-the-implementation-of-the-imf-program-and-the-ukraine-plan-april-2025/
[27] Reuters-WB, access: https://www.reuters.com/world/world-bank-eyes-speeding-up-loan-approvals-amid-bold-overhaul-2023-11-02/
[28] UNDP, access: https://www.undp.org/sites/g/files/zskgke326/files/2024-10/undp-ifi-brochure.pdf
[29] DataDriven Interviews

implementation, transition to IFRS standards, or improvements to their management systems. This not only enhances internal business quality but also reduces obstacles to attracting additional financing.

Finally, IFIs act as institutional architects. By creating financial platforms, public guarantee mechanisms, and collaborating with governments and sectoral funds, IFIs establish a market infrastructure where access to financing depends on compliance with standards, transparency, and the long-term sustainability of the business model.

Availability of IFI instruments by business size

- Small businesses (SMEs) typically have limited direct access to IFI instruments due to high reporting, scale, and resource requirements. The most common way is through participation in credit lines offered by local banks, as well as co-financing programs with technical components (such as EU4Business).
- Medium-sized businesses can access IFI debt programs and sometimes quasi-equity instruments. The main obstacles are the need to adopt ESG practices, maintain quality financial management, and be prepared for due diligence.[30]
- Large businesses are the primary target for IFIs. They use direct financing, syndicated loans, equity participation, and project financing (including infrastructure, energy, and exports) specifically for this segment.

Development Finance Institutions (DFIs)

DFI as an investor

Unlike multilateral intergovernmental financial institutions, DFIs operate as national financial tools of donor countries with a flexible mandate that allows them to work directly with private companies, sometimes without involving government structures. The primary goal of DFIs is to fund long-term, transformative projects in high-risk environments that can generate a multiplier effect for the development of the local business climate. Among the main DFIs active in Ukraine are DFC (USA), DEG (Germany), FMO (Netherlands), BGK (Poland), KfW (Germany), Proparco (France), Finnfund (Finland), Swedfund (Sweden), and others.

A key feature of DFIs is their ability to provide direct financing to private companies without the need for government or state bank intervention,[31] which helps avoid excessive administrative procedures, speeds up the decision-making process, and adapts the financial structure to the company's actual needs. The agreement can take the form of direct equity participation, long-term lending, subordinated instruments, or revenue-based financing. These models enable the consideration of the company's cash flow dynamics and help alleviate the burden during the initial phase of project implementation.

An essential part of DFIs' work involves participating in specialized platforms and multi-donor funds that combine public and private capital to invest in specific sectors: renewable energy, agro-processing, medical infrastructure, logistics, and industrial parks. In these cases, DFIs act as anchor investors, taking on higher risks (first-loss capital), which enables them to attract additional market participants.[32]

[30] UNDP, access: https://www.undp.org/sites/g/files/zskgke326/files/2024-10/undp-ifi-brochure.pdf
[31] Forbes, access: https://forbes.ua/money/yak-otrimati-grant-chi-kredit-dlya-biznes-proektu-vid-evrosoyuzu-rozpovidae-zastupnik-ministra-ekonomiki-oleksiy-sobolev-30012025-26749
[32] European Union, access: https://enlargement.ec.europa.eu/document/download/f39df847-82e7-4c21-8b8a-339e71a98d7b_en?filename=European_Fund_Ukraine.pdf

Despite their flexibility and high level of institutional support, access to DFI financing involves significant requirements. Financing typically requires a formal development strategy, a thorough due diligence process, environmental and social assessments, legal structuring, and the signing of regulated agreements. As a result, even if investors show interest, transactions often do not proceed due to failure to meet basic requirements.[33] Additionally, although the list of eligible sectors for funding is usually broad, some DFIs are quite selective in their coverage.

Sourse: Financial Instruments for Business in Ukraine (KSE)

DFI financing is not just about providing resources – it transforms how access to capital works. Unlike commercial banks, which prioritize liquidity, DFIs evaluate a project's strategic viability, potential for scale, and long-term benefits. The agreement structures often include deferred repayment, grace periods, partial conversion to equity, or performance-based payment mechanisms.[34] These terms are designed to match the investment cycle of companies in their development or transformation stages.

At the same time, the limitations of DFIs remain significant. These include the complexity of procedures, high application costs, a lengthy decision-making process, a limited number of local program administrators, and the absence of scalable partnership models suitable for the Ukrainian environment. Without an internal support infrastructure – regulatory, technical, and institutional – the full potential of DFIs cannot be achieved.

Availability of DFI instruments by business size

- Small businesses (SMEs) have limited access to direct DFI financing due to a lack of institutional readiness.[35] Typical options include participation in regional funds or programs run by DFIs through intermediaries, such as stock platforms, accelerators, or individual banks.

[33] DataDriven Interviews
[34] E.g., Interfax, access: https://interfax.com/newsroom/top-stories/81623/
[35] Forster, W.-P., Charnoz, O., Coordination Meliono, T. and Naudet, J.-D. (2023). Development Finance Institutions: New Directions for the Future. Dans Development Finance Institutions: New directions for the future (p. 1-68). Éditions AFD. https://shs.cairn.info/journal-afd-research-papers-2024-298-page-1?lang=en.

- Medium-sized businesses are the primary focus for DFIs. This segment typically meets the criteria for transparency, corporate structure, scalability, and the ability to carry out investment projects with transformational potential, fitting within the financial range of $3 million to $15 million, which is covered by DFIs.[36] Access is provided to direct loans, quasi-equity instruments, and technical assistance.
- Large businesses have access to the full range of DFI instruments, from direct equity investments to participation in syndicated deals. The terms depend on the sector, the deal's structure, and the donor country's political priorities. For strategic industries, DFIs can be both a source of resources and a channel for political backing and reputation enhancement.

Direct investments and quasi-equity instruments

Direct investments in equity and quasi-equity mechanisms form a separate category of external financing, which differ fundamentally from debt instruments in terms of risk, repayment mechanism, and liability structure. Equity investors do not require fixed debt payments; instead, they share in the company's profits and losses, focusing on its value and growth potential. This type of financing is used by international institutional funds (IFC, DFC, EBRD, EIB),[37] development finance institutions (DFIs),[38] and private management platforms. This class of instruments is essential for companies undertaking capital-intensive projects in complex jurisdictions that lack access to traditional long-term sources of capital.

Equity financing involves the investor's direct contribution to the company's capital, typically through share ownership or a stake in the authorized capital. In the case of quasi-equity instruments, subordinated debt, convertible notes, or revenue-based financing are used – methods that enable the return of funds to be structured as deferred payments linked to the company's financial results, without a formal transfer of control. These instruments are employed when the enterprise has high growth potential but does not qualify for traditional debt financing due to a lack of liquid collateral or a short credit history.

For micro and small businesses, equity and quasi-equity instruments remain largely inaccessible. The reasons are not only the limited volumes[39] that could attract institutional investors but also the low level of structural readiness among enterprises. Common barriers include informal ownership, a lack of standardized reporting, the absence of corporate governance practices, and limited access to the legal and financial support needed to structure a deal.[40] Even in social investment or start-up financing programs that allow participation in early development stages, the requirements remain extremely high. The practical use of equity investments in this segment is mainly limited to isolated cases and is not systematic.

Medium-sized businesses, with an annual turnover of $3-5 million, a formal management structure, and potential for scaling, are considered the primary focus for investors. Direct investments are made by international funds (e.g., Horizon Capital) or through platforms associated with DFIs (IFC, FMO, DEG, EIFO). Preference is given to companies operating in export-oriented sectors such as agri-processing and logistics,[41] and that have a proven business model with high added value.

[36] DataDriven Interviews
[37] E.g., EIB, access: https://www.eif.org/news_centre/publications/eib_group_equity_and_quasi_equity_for_smes_en.pdf
[38] E.g., FMO, access: https://www.fmo.nl/news-detail/c35f885c-5807-447c-b17f-bbcc68dfb7c8/fmo-s-investments-in-ukraine
[39] UMAEF, access: https://umaef.org/programs/sme-direct-investment-program
[40] DataDriven Interviews
[41] FMO, access: https://www.fmo.nl/news-detail/3ba754db-3f28-40b4-9502-cc53fe7fa9bc/fmo-invests-usd-20-mln-in-the-first-fund-raised-for-ukraine-since-february

The process of attracting financing requires consolidated management reporting, a strategic development plan, due diligence, compliance with ESG principles, and the definition of exit mechanisms (e.g., sale of shares or M&A). In most cases, the investor participates in the company's strategic decisions, notably through representation on the supervisory board or approval of key changes in ownership structure. The cost of preparing a deal (including legal support, audit, and impact assessment) can reach $50,000–100,000, which limits access to only well-prepared companies.

Only **large enterprises** (with IFRS auditing, access to international markets, etc.) can systematically utilize equity or quasi-equity instruments as part of their financial strategy. The IFC Equity Platform programs, DFC investment initiatives, and involvement of the EBRD or European Commission funds focus on projects in energy, critical infrastructure, industrial processing, and logistics. The investor typically acts as a co-owner throughout the investment cycle, with the right to convert part of the instrument into equity. This type of financing helps overcome limitations of bank lending, such as short terms, collateral requirements, and risk profile constraints. At the same time, investors demand transparency, strategic management, and a precise exit mechanism. The primary challenge in Ukraine is the lack of a public capital market, which complicates the execution of exit strategies, as well as a shortage of local professional partners capable of providing structural support for such investments.

Despite the high quality of this financing type, in terms of capital structure, risk sharing, and absence of debt burden, the use of equity and quasi-equity instruments in Ukraine remains limited. The local institutional infrastructure, including co-investment funds, investor protection mechanisms, arbitration systems, and conversion platforms, is lacking.[42] Additionally, the government does not provide incentives for capital raising: there are no public investment platforms, insurance solutions, fiscal incentives, or transaction cost reimbursement mechanisms.

Consequently, direct investment is only accessible to companies that are already operating within the international legal framework and have access to consulting, analytics, and management resources. Turning this instrument into a systemic capitalization mechanism requires targeted government policy, the development of a legal framework for shareholder protection, and the establishment of exit channels for investors. Without these, equity financing will continue to be an instrument solely for large, institutionally prepared companies.

Grants and technical assistance as part of the investment infrastructure

In the structure of external support for Ukrainian businesses, grants, technical assistance, and non-financial programs form a separate category of instruments that do not create debt burdens and do not involve investor participation in the company's capital. At the same time, they provide critical institutional support for business modernization, investment readiness, and a transition to more complex forms of financing. During 2022–2024, these instruments served as a partial substitute for capital amid limited access to debt financing and low private sector investment activity.

Grant support encompasses a diverse range of formats, including direct investment grants for capital expenditures (CapEx) and operational expenditures (OpEx), grants for innovative projects, research and development (R&D), export preparation, institutional strengthening, and investment readiness. Technical assistance, typically implemented alongside grant components, focuses on developing management capacity,

[42] DataDriven Interviews

implementing ESG approaches, standardization, digital transformation, strategic planning, and professionalizing management processes. Such programs are provided by international agencies, including GIZ, BMZ, UNDP, FCDO, NORAD, DANIDA, EBRD, and the European Commission, which implement projects through relevant platforms like EU4Business/ReACT4UA (navigating Ukrainian SMEs in the EU), Horizon Europe (deep-tech & innovations), LIFE Programme (SMEs in environment change) Germany implements through IKI Fund's (green transition) RES and JTR-U Programmes and others.

Micro and small business segment. For this segment, grants remain the most accessible and effective form of external financing, often serving as the only source of modernization.[43] The main funding areas include equipment purchases, process digitization, implementation of quality standards (HACCP, ISO), product certification, export readiness, and energy efficiency initiatives. The typical grant size ranges from €10,000 to € 30,000.[44] Despite the limited amounts, these funds significantly transform the enterprise's operating model. The basic requirements include formal registration, minimal financial accounting, a simplified application process, and confirmation of intended use. However, there is a growing trend toward higher standards: increasingly, programs require a business plan, financial model, and management reporting (examples include USAID CEP and FCDO).[45] This is gradually creating an environment where even small enterprises must meet basic institutional capacity standards.

In the **mid-size segment**, grants are used to co-finance individual transformational components, such as certification, implementation of ESG standards, automation, and strategy development. The average grant amount in this segment ranges from €35,000 to €50,000[46], with a total project cost of €150,000 to €200,000.[47] In this setup, the grant is not a self-sufficient resource; rather, it helps prepare the project for additional financing through bank loans, guaranteed loans, or institutional lending. The main barriers include complex administrative reporting, high competition for resources, and the lack of integration between grants and other instruments (e.g., guarantee or blending products).

For **large companies**, grant support serves a supportive role within comprehensive investment programs. These include infrastructure, energy, environmental, or innovation projects, where the grant covers risky or unprofitable stages such as feasibility studies, environmental impact assessments, audits, and certification. For example, within EBRD programs, the grant portion can constitute 5–15% of the total budget.[48] [49] Its provision depends on meeting high standards of corporate governance, transparency, auditing, and securing co-financing of at least 70–80%. In projects supporting the circular economy, technical assistance can finance the entire preparatory stage prior to institutional lending. Participating in such programs ensures synergy between grant support and long-term financing but requires a high level of professional readiness from the company.

One systemic issue affecting large businesses in Ukraine has been the reduction of specific grant programs supported by USAID. Unlike most official aid programs focused on micro and small businesses, USAID offered non-repayable financing instruments also available to medium and large enterprises. Specifically, USAID financed transformational projects in logistics, agro-processing, industrial cooperation, and industrial parks, with grant amounts ranging from $150,000 to $500,000 per project recipient.[50]

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[43] InVenture, access: https://inventure.com.ua/uk/analytics/formula/zvidki-vzyati-groshi-malomu-ta-serednomu-biznesu:-mozhlivosti-j-instrumenti
[44] KSE, access: https://kse.ua/wp-content/uploads/2024/11/Financial-instruments-for-business-in-Ukraine.pdf
[45] FCDO, access: https://www.gov.uk/international-development-funding/ukraine-nexus-for-durable-solutions-initiative
[46] For example, the average amount of loans, including EU4Business grants, is $40,000. EU4Business, access: https://eu4business.org.ua/en/news/eu-releases-the-annual-eu4business-report-on-sme-support-in-eastern-partnership/
[47] DataDriven Interviews
[48] CCIFI, access: https://www.ccifu.com.ua/uk/novini/n/news/newsletter-23-reconstruction-ukraine-april-2025.html
[49] EU4Business – EBRD Credit Line, access: https://www.eu4business-ebrdcreditline.com.ua/
[50] UkrInvest, acces: https://ukraineinvest.gov.ua/en/news/24-01-2024/

Limitations on effectiveness and integration

Despite the growth of grant programs, several systemic limitations remain. First, these programs are time-limited, fragmented, and lack mechanisms for refinancing and scaling up. Second, there is a lack of integration with other financial tools – most platforms do not offer a direct transition to lending or guarantees.[51] Third, no unified national infrastructure exists for coordinating grant programs.[52] Current platforms do not replace a systemic mechanism for integrating into the overall financial architecture of business support.

Blended Finance

Blended finance is a mechanism for attracting private capital to finance high-risk projects by combining concessional donor funds with commercial resources. Its main function is not just to lower the cost of financing, but primarily to adjust the risk-return profile so that projects with high social or economic benefits, but limited market appeal, become attractive to private investors. Unlike concessional lending, blended finance instruments feature a risk-sharing structure in which participants have varying levels of priority, responsibility, and expectations regarding profitability.

Implementation methods include blending commercial loans with grant components, using first-loss capital instruments (where the donor bears the initial losses), structuring multi-tiered funds with risk differentiation, and involving technical assistance for project preparation and execution. The primary operators of such mechanisms are international financial institutions, notably the EBRD, EIB, DFC, FMO, KfW, and IFC, as well as specific thematic initiatives such as EFSD+, GEFF, and E5P. In the Ukrainian context, the instrument is employed in a mixed support format, where the grant component (e.g., compensation for part of the investment costs) is combined with loans through banking partners.

For **micro and small businesses**, the effects of blended finance are mainly indirect. Banks that access preferential resources, guarantees, or risk coverage can, in theory, offer loans at lower interest rates, with relaxed collateral requirements, and longer terms. However, these benefits are largely not realized in practice. Banks are not required to pass these advantages to the final beneficiaries, and even with partial interest rate or risk subsidies, the actual cost of a loan for small businesses remains around 16–20% annually. As a result, the benefits mostly benefit the banks, improving their financial results.[53] Additionally, small businesses often lack the technical or administrative capacity to navigate the procedures needed to participate in multi-component programs, significantly limiting the practical reach of these instruments.

Some blended finance programs do prioritize SMEs. For example, grant programs by the EBRD, EIB, KfW, and BGK include blending instruments. However, few banks actively offer these opportunities through accessible loan products, and transparency around how final terms are determined remains limited.

For **medium-sized businesses**, blended finance may be accessible through direct participation in projects led by IFIs. Successfully attracting such resources requires a structured business model, consolidated financial statements, proven operational profitability, and comprehensive documentation for project evaluation (due diligence). Typically, these instruments are used in projects focused on modernization, energy efficiency, digital transformation, and ESG standards.[54] Programs such as the EU4Business Facility (including the Ukraine

[51] DataDriven Interviews
[52] CSIS, acces: https://www.csis.org/analysis/untapped-market-impact-investing-ukraine
[53] DataDriven Interviews
[54] European Comission, access: https://enlargement.ec.europa.eu/european-neighbourhood-policy/countries-region/ukraine/ukraine-investment-framework_en?utm_source=chatgpt.com

Investment Framework), the EBRD's SME Competitiveness Program, and the E5P often combine grant funding, technical assistance, and concessional loans for medium-sized enterprises.

At the Ukraine Recovery Conference 2025 in Rome, the European Commission, through the Ukraine Investment Framework, announced the launch of the European Flagship Fund for the Reconstruction of Ukraine — a new private equity investment vehicle. For the first time, EU funds will be used not only to support critical infrastructure and the real sector, but also to invest in technology and dual-use innovations.

The fund will launch with an initial capital of €220 million, with the goal of mobilizing up to €500 million by 2026, primarily through equity investments in Ukrainian companies. The selection of the fund's managing entity is currently in progress, and the first investments are expected by the end of 2026.

In **large businesses**, blended finance facilitates the execution of capital-intensive, long-term projects by combining funding instruments with varying risk-return profiles, such as concessional loans, guarantees, and grants. These mechanisms are primarily implemented in collaboration with institutions such as the EBRD, EIB, DFC, and others.

Overall, blended finance is a strategic tool for attracting private investment in high-risk environments. It lowers capital costs, reduces barriers for private investors, and supports the implementation of economically viable yet market-vulnerable projects. Nevertheless, scaling up these efforts requires sophisticated platforms capable of managing complex financial structures, coordinating with donors and private sector entities, and maintaining transparent mechanisms for distributing benefits.

Guarantees and risk-sharing instruments

Guarantees and other risk-sharing mechanisms are essential parts of the structure used to mobilize capital in times of increased uncertainty. These tools do not offer direct financing, but they significantly lower the risk cost for borrowers by covering part of the lender's or investor's potential losses in the event of a default. Guarantee mechanisms can protect against credit risk (partial credit guarantees), political risk (political risk guarantees), and first-loss risk (first-loss guarantees). They can also be employed in structured financing products that involve multi-level risk sharing. Usually, guarantees are only triggered when the borrower defaults, with coverage ranging from 30% to 80% of liabilities, depending on the specific program terms and risk considerations profile.[55] [56]

The main operators of such mechanisms for the Ukrainian private sector include the EBRD, EIB, IFC, DFC, GuarantCo, EIFO, as well as bilateral agencies like SACE (Italy) or U.S. DFC. Guarantees can be incorporated into banking products, equity structures, or public-private risk-sharing mechanisms, such as in the case of the European Fund for Sustainable Development Plus (EFSD+).

For **micro and small businesses**, guarantees are provided exclusively indirectly through bank loans that carry guarantee coverage.[57] For example, in EU4Business, or EBRD programs, local banks receive guarantees to cover credit risk partially. This should reduce collateral requirements and increase credit availability for businesses with limited history or insufficient collateral. However, in Ukrainian practice, banks rarely change

[55] KSE, access: https://kse.ua/wp-content/uploads/2024/11/Financial-instruments-for-business-in-Ukraine.pdf
[56] FinClub, access: https://finclub.net/news/kredyty-pid-mizhnarodni-harantii-niveliuiut-ryzyky-biznesu-pid-chas-viiny.html
[57] e.g., PrivatBank, access: https://privatbank.ua/news/2024/9/12/yebrr-ta-privatbank-pidpisali-ugodu-shchodo-portfelnih-garantiy-dlya-kredituvannya-biznesu-na-400-mln-yevro

their lending policies, even when guarantees are available. As a result, guarantees are used to grow the portfolio rather than to ease conditions for borrowers. Even with a guarantee covering up to 70% of the loan principal, banks still require additional collateral or leave the interest rate unchanged. The effect of lowering barriers for small businesses is thus significantly limited.

For **medium-sized businesses**, guarantee instruments open up broader opportunities, especially in the context of investment projects related to modernization, energy efficiency, or digitalization. Programs such as the EBRD Risk Sharing Facility, IFC, GuarantCo, and others within the UIF provide coverage of up to 80% of the risk, sometimes in combination with technical assistance.[58] However, the effectiveness of these mechanisms depends on the terms of the agreement. In most cases, the guarantee is not accompanied by a commitment from the bank to reduce the interest rate or alter other loan terms. Additionally, guaranteed loan portfolios are typically limited by fixed budgets and are not integrated into the bank's systemic lending strategy. This restricts the instrument's scalability and diminishes its impact.

For **large businesses**, guarantees serve as a comprehensive tool for structuring project financing. These are long-term, capital-intensive initiatives that often involve significant political or regulatory risks. In this segment, mechanisms from DFC, MIGA, SACE, EIB, and EFSD+ platforms are available. For example, the EIB's guarantee programs under the Ukraine Facility provide guarantees of up to €2 billion for long-term infrastructure, energy, transport, housing infrastructure,[59] and the EBRD Resilience and Livelihoods Guarantees (RLG) Programme offers risk-sharing agreements for banks (Oschadbank, ProCredit, etc.),[60,61] covering up to 50% of credit risk for sub-loans of €70-200 million. Access to such mechanisms is limited to a narrow range of financial institutions. Nonetheless, access to such programs remains limited due to the small number of banks authorized to work with these instruments and the complexity of approval procedures.

A separate category includes war risk insurance instruments that compensate for losses caused by the direct impact of armed conflict. In international practice, this segment encompasses insurance of foreign investments against political risks (MIGA, DFC), as well as coverage of material losses incurred by businesses resulting from hostilities. In 2023–2024, several war insurance mechanisms were established for Ukraine, including participation from the MIGA Trust Fund, U.S. DFC funds, and new initiatives within the Ukraine Investment Framework. They provide insurance for investments, loans, and assets against risks such as destruction, expropriation, political violence, and military force majeure. However, coverage does not extend to objects located near the front line or in high-risk areas.

In the domestic market, insurance products covering military risks are fragmented. Some companies (e.g., ARX, INGO) offer limited risk coverage for individual assets; however, the systemic mechanism primarily operates at the level of international financial partners. The primary purpose of these instruments is to create a compensatory environment for investors, facilitate the restoration of assets damaged during the war,[62] and send a strategic signal to international markets that Ukraine remains a viable destination for investment, thereby reinforcing confidence and lowering perceived risk.[63]

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[58] E.g., IFC, access: https://www.ifc.org/en/pressroom/2025/ifc-and-ukrsibbank-join-forces-to-boost-medium-sized-and-larger-corporates-in-ukra?utm_source=chatgpt.com
[59] European Comission, access: https://enlargement.ec.europa.eu/news/european-commission-and-eib-group-sign-eu2-billion-guarantee-under-ukraine-facility-support-countrys-2025-03-06_en
[60] EBRD, access: https://www.ebrd.com/home/news-and-events/news/2024/ebrd-extends-guarantee-to-ukraines-oschadbank-to-enable-200-million-of-new-lending.html
[61] EBRD, access: https://www.ebrd.com/home/news-and-events/news/2024/ebrd-extends-new-guarantee-to-proredit-bank-ukraine-to-support-70-million-in-new-lending-to-smes.html
[62] Financial Times, access: https://www.ft.com/content/01be1081-55b7-46da-97a6-c3eb08586564
[63] Sayenko Kharenko, access: https://sk.ua/rethinking-insurance-in-wartime-ukraine

Therefore, guarantees and risk-sharing instruments are vital for restarting investment activities. Their effectiveness depends not only on the amount of coverage but also on how well they are integrated into the financial system: the transparency of mechanisms, the mandatory nature of changes in credit products, accessibility for various types of businesses, and the ability of financial institutions to adapt conditions to the actual risk profile of borrowers. In times of high uncertainty and limited access to capital, guarantees act as a systemic catalyst for investment activity, especially in sectors with long payback periods or heightened political risks.[64]

Institutional infrastructure and barriers to access to finance

Ukrainian companies' limited access to institutional financing from international financial institutions (IFIs) and development finance institutions (DFIs) is not solely due to macroeconomic or military risks. A significant structural barrier is the lack of operational infrastructure in Ukraine that would support a complete cycle of working with development instruments – from preparing investment documentation to managing agreements with donors, financial intermediaries, and insurance mechanisms.

The issue involves three levels. First, enterprises often lack internal institutional capacity:[65] Most companies do not systematically perform financial modeling, legal structuring, investment risk management, and comprehensive ESG screening as required by institutional financiers. Consequently, grant, loan, or guarantee applications often lack key elements such as NPV/IRR analysis, risk matrices, audit reports, or the legal framework of the transaction. This results in widespread rejection of applications that are technically incomplete.

The second issue is the lack of an independent intermediary between businesses and international lenders or donors.[66] In most countries with high participation in institutional financing, this role is carried out by authorized development agencies, state development funds, or specialized financial brokers. They ensure pipeline standardization, offer advisory support, develop standard application models, and coordinate interactions with banks and donors. Ukraine lacks such institutions. As a result, even large and professional companies must manage the entire preparation cycle independently, without access to standards, templates, or institutional support.[67] Consequently, projects with high potential often do not progress to the consideration stage.

The third issue is the lack of transparency in accessing risk insurance instruments. While several international and national institutions (e.g., MIGA, DFC, G7 ECA Coalition, Ukrainian ECA) have announced risk insurance mechanisms, there is no publicly accessible centralized system that clearly outlines eligibility criteria, application procedures, operators, or timelines. In practice, businesses often struggle to determine how to access these instruments, frequently relying on informal guidance or international consultants. As of mid-2025, no unified submission platform or publicly available methodological framework exists at the national level.

Hence, the main barrier to attracting large-scale international financing to Ukraine is not a shortage of resources, but rather the lack of institutional capacity to absorb them effectively. Without establishing an intermediary brokerage structure that ensures coordination, support, and standardization in attracting financing, international

[64] DataDriven Interviews
[65] CSIS, access: https://www.csis.org/analysis/financing-ukraines-critical-small-and-medium-sized-enterprises
[66] Laptiev, S., & Zakharov, O. (2025). The Impact of State Policy on The Economic Security of Enterprises in Ukraine: Current Challenges and Strategic Responses. *Economics Finance and Management Review*, 1(21), 29–42. https://doi.org/10.36690/2674-5208-2025-1-29-42
[67] DataDriven Interviews

financial resources will remain limited to a small group of prepared enterprises. To change this situation, a national-level institutional decision is necessary to create an authorized body tasked with managing access to DFI/IFI instruments, integrating insurance and guarantee mechanisms, developing model financial structures, and offering methodological support to businesses. Without such infrastructure, capital will stay idle, and development tools will remain unintegrated into Ukraine's economic system.

Specific legal aspects of blended finance and foreign investment in Ukraine

I. What legal regime applies to blended finance in Ukraine?

Financing agreements can be structured in various ways, depending on the parties involved and the project's specific details. Often, the donor (grant provider) may be the same bank or organization that supplies the loan, in which case blended finance can be arranged within a single agreement. However, even if the donor and lender are the same entity, two agreements are usually signed: a loan agreement and a grant agreement. Under blended finance structures, loans may also be provided indirectly through a Ukrainian state-owned bank, such as Ukreximbank or Oschadbank. The (Ukrainian Investment Framework) UIF terms allow both options at the lender's discretion.

Loans from non-residents under blended finance structures must generally be registered in the NBU's automated information system, "Loans with Non-Residents." However, there are exceptions for loans obtained under a state guarantee (the UIF allows this if collateral is insufficient) or loans from an IFI or an organization equivalent to it. For example, the EBRD, EIB, and International Finance Corporation (IFC) are categorized as IFIs, whereas BGK is not.

Grants are not required to be registered since they are non-repayable financial support. The State Tax Service may conduct audits of grants to verify whether such grants are disguised income or payments for goods or services, making it essential to document the grant's terms, conditions, and intended use properly. International technical assistance (ITA) projects, which may provide funding, must be registered with the state.[68]

The currency control restrictions imposed by the National Bank of Ukraine (NBU) on February 24, 2022, generally do not affect loans from IFIs, DFIs, and ECAs, as payments under these instruments are exempt from the moratorium on cross-border payments. Additionally, there are exceptions for payments on loans provided by commercial banks and institutions after June 20, 2023, with certain restrictions, including an interest rate cap of 12%.

The administrator of the financing can be either the lender or donor themselves, or a third party. Lenders (e.g., IFIs) may serve as administrators of the financing, monitor borrowers' compliance with the terms, and manage payments. If the lender and the donor are different entities, or if there are multiple lenders and donors, the parties typically appoint an administrator (like an agent or project implementation entity) to coordinate the disbursement of loan and grant tranches and to oversee the use of funds by the borrower. Various entities, such

[68] KMU, access: www.kmu.gov.ua%2Fdiyalnist%2Fmizhnarodna-dopomoga%2Freiestratsiia-proektiv-mtd&usg=AOvVaw0SXjdYmekRz0QydWi7Zd-x&opi=89978449

as other IFIs, DFIs, ECAs, Ukrainian banks, or specialized organizations like the United Nations Office for Project Services (UNOPS), may act as this administrator.

II. How does Ukrainian law regulate the formalization of investment insurance against political and military risks (MIGA, DFC, ECA)?

Commercial insurance provided by Ukrainian insurers is regulated by specialized legislation, specifically the Law of Ukraine "On Insurance" and the acts of the NBU, which serves as the regulator of the insurance market. Relations between insurers and reinsurers are generally governed by foreign law, especially English law. The activities of MIGA and DFC in providing insurance are based on international agreements and are limited by the mandates outlined in those agreements.

Often, having insurance for the borrower's assets is a mandatory requirement set by the lender to provide financing. Whether a Ukrainian company can be the direct beneficiary of an insurance policy depends on the transaction structure and the insurer's rules. For example, DFC can provide insurance to Ukrainian companies. Additionally, insurance can be issued to a Ukrainian bank under risk-sharing agreements, and the bank can then lend money to Ukrainian businesses. ECAs insure foreign investments in Ukraine made by investors from the ECA's country of origin and are not meant to insure investments by Ukrainian businesses. The Ukrainian ECA offers insurance on the condition that the loan is used for investments in infrastructure and industry development necessary for exports.

The process for recognizing losses and seeking compensation from a foreign guarantor or insurer in a Ukrainian court depends on the dispute resolution clause outlined in the contract, specifically, which authority is authorized to resolve disputes: international arbitration or a foreign court.

Ukrainian courts acknowledge decisions made by international commercial arbitration tribunals according to the rules set by the Civil Procedure Code of Ukraine and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958. Under the Civil Procedure Code of Ukraine, an application for recognizing and enforcing an international commercial arbitration award must be submitted to the Kyiv Court of Appeal within three years from the date of the award. Generally, as established by the Code and the Convention, when recognizing or enforcing an international commercial arbitration award, Ukrainian courts do not examine the merits of the case. The grounds for refusing recognition or granting enforcement are limited and mostly relate to procedural violations during arbitration, such as improper notification of a party about a hearing. Typically, Ukrainian courts issue decisions on recognition and enforcement within one to two months.

The Civil Procedure Code of Ukraine also governs the procedure for recognizing foreign court decisions. It states that such decisions are recognized and enforced in Ukraine if they are provided for by an international treaty whose binding nature has been approved by the Verkhovna Rada of Ukraine, or based on the principle of reciprocity if no such treaty exists. Usually, these treaties are bilateral and directly concluded between two states. There are many instances where no such treaty exists, which makes recognizing and enforcing foreign court decisions more complex because the principle of reciprocity might not be established. To facilitate the enforcement of foreign court decisions, the Hague Convention on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters was adopted in 2019 and signed. It came into force for Ukraine on September 1, 2023. Currently, this convention allows Ukrainian courts to recognize and enforce judgments from EU countries (except Denmark) and Uruguay; starting July 1, it will also include England and

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Wales. Typically, the process for recognition and enforcement resembles that of international commercial arbitration awards, but the application for enforcement is filed with the court where the debtor is located.

III. How should the entry of a DFI or fund into the capital of a Ukrainian LLC be formalized, and what conditions may be critical?

The main methods for an investor to acquire the capital of a limited liability company (LLC) are:

- purchasing a share in the LLC's authorized capital;
- obtaining a share by investing in the LLC during its authorized capital increase;
- converting the LLC's existing debt to the investor into a share in the LLC's authorized capital.

Generally, when an investor acquires the capital of an LLC, several legal and tax considerations need to be addressed. Key legal issues include:

- the need to obtain permission from the Antimonopoly Committee of Ukraine to acquire the authorized capital;
- the applicability of special regulatory legislation in certain areas (e.g., financial) that may affect the transaction.

Before an investor acquires the capital of an LLC, it is important to properly regulate the relationship between the existing participants and the new investor. This is usually accomplished by signing a shareholders' agreement, which may provide for, among other things, the following mechanisms:

- Corporate governance of the LLC: defining management bodies, the process for appointing their members, the division of powers between these management bodies, and the issues that require unanimous approval by the LLC participants.
- Transfer of shares to related or third parties: establishing rules for transferring shares to persons related to the participants, as well as the conditions for implementing mechanisms such as the preemptive right to purchase shares sold to third parties (right of first refusal, right of first offer), tag-along rights, and drag-along rights.
- Protection against dilution: introduction of mechanisms to preserve the size of the investor's share during future investments or capital changes.
- Resolution of deadlock situations: establishing procedures for resolving blockages in the adoption of key decisions for the LLC's activities.
- Other operational issues governing the interaction of the parties in the day-to-day activities of the LLC.

It should be noted that the Law of Ukraine "On Limited and Additional Liability Companies" (the LLC Law) already includes basic tools for protecting potential investors, in particular:

- mechanisms to prevent dilution of shares;
- preemptive right to purchase another participant's share sold to a third party;
- the investor's right to access information about the LLC's activities.

Additional investor protection mechanisms are available under the legal regime of Diia City, including liquidation preferences and liquidated damages.

IV. How is the exit of a foreign investor from a Ukrainian business regulated, and what legal/currency restrictions exist?

The basic ways for an investor to exit the capital of an LLC are:

- sale of shares to other participants or third parties;
- exit from the LLC following the procedure provided for by the Law on LLCs.

Regardless of the chosen exit method, it is essential to review the shareholders' agreement (if any) carefully, the LLC's charter, and other related documents, including financial documents. These documents may include provisions regarding the exit process for investors, the method for determining the value of their shares, and the conditions and restrictions on share transfers.

It is important to note that LLC Law allows a participant who owns less than 50% of the shares to withdraw from the LLC at any time without the approval of other participants. However, a participant owning 50% or more does not have this right – they must get the consent of the other participants to withdraw. Meanwhile, the charter may allow the majority of participants to withdraw without the approval of the others.

In practice, parties often include contractual restrictions in the shareholders' agreement that limit the right of all or some participants to withdraw from the LLC without the others' approval. Such provisions help provide greater predictability and stability for the LLC and the joint venture as a whole.

From the perspective of currency control regulation in Ukraine, a foreign investor planning to exit an LLC should also consider the legal restrictions introduced by the NBU due to Russia's full-scale military aggression. In February 2022, the NBU imposed significant restrictions on capital withdrawals from Ukraine to protect macroeconomic stability. These restrictions were gradually eased as the financial system adapted to wartime conditions and the economy began to stabilize.

However, currently, the ability of foreign investors to withdraw capital from the sale of Ukrainian businesses remains limited. If the buyer is a Ukrainian resident and payment is made within the Ukrainian banking system, transferring the funds abroad is currently prohibited. Nonetheless, these funds can be freely reinvested within the country, such as in government bonds.

In practice, investors can use alternative mechanisms to avoid the temporary "freezing" of funds in Ukraine. The most common method involves structuring a deal where payment occurs outside the country: the buyer pays from their foreign account directly to the seller-investor's account abroad. This approach complies with Ukrainian laws, as the currency transaction takes place outside Ukraine's jurisdiction and currency regulations.

Therefore, despite temporary currency restrictions, foreign investors still have relatively flexible options to exit Ukrainian businesses, provided that the transaction structure is carefully planned and current regulatory requirements are taken into account.

Summary

Despite the formal availability of various international financing tools in Ukraine, such as guarantees from development institutions, concessional loans, equity investments, and risk insurance mechanisms, their actual use in the private sector remains limited. Institutional financing offers an alternative to traditional bank loans, focusing on a project's long-term investment potential rather than collateral, liquidity, or credit history. However, access to these mechanisms is mainly confined to large companies – those with the necessary technical and financial capacity to meet donor requirements.

The main obstacle is not a lack of resources but the absence of an institutional infrastructure for large-scale and predictable capital raising. Guarantee programs often do not reduce the final cost of financing, and direct investment or lending by Development Finance Institutions (DFIs) requires complex technical preparation, including financial modeling (IRR, DCF), ESG screening, legal structuring, and due diligence. In the middle segment of businesses, where microfinance is inaccessible and capacity for large institutional deals is insufficient, a systemic gap known as the “missing middle” is forming, excluding entire categories of enterprises from development opportunities.

The absence of a stable infrastructure for intermediation and technical support worsens this issue. Ukrainian enterprises are left to navigate international financial requirements on their own, without access to standard documentation templates, guidelines, a centralized coordination channel, or administrative assistance. Even when international partners provide funding, the pipeline of approved and structured projects remains limited, and the risk of applications being rejected due to technical unpreparedness is high.

Institutional financing has the potential to become a vital tool for the large-scale modernization of the private sector. However, without establishing an appropriate technical, administrative, and regulatory framework, it will remain a marginal source of support. The benefits of this capital can only be realized through systematic mediation, transparent communication with donors, and the integration of investment planning into the company's business processes.

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