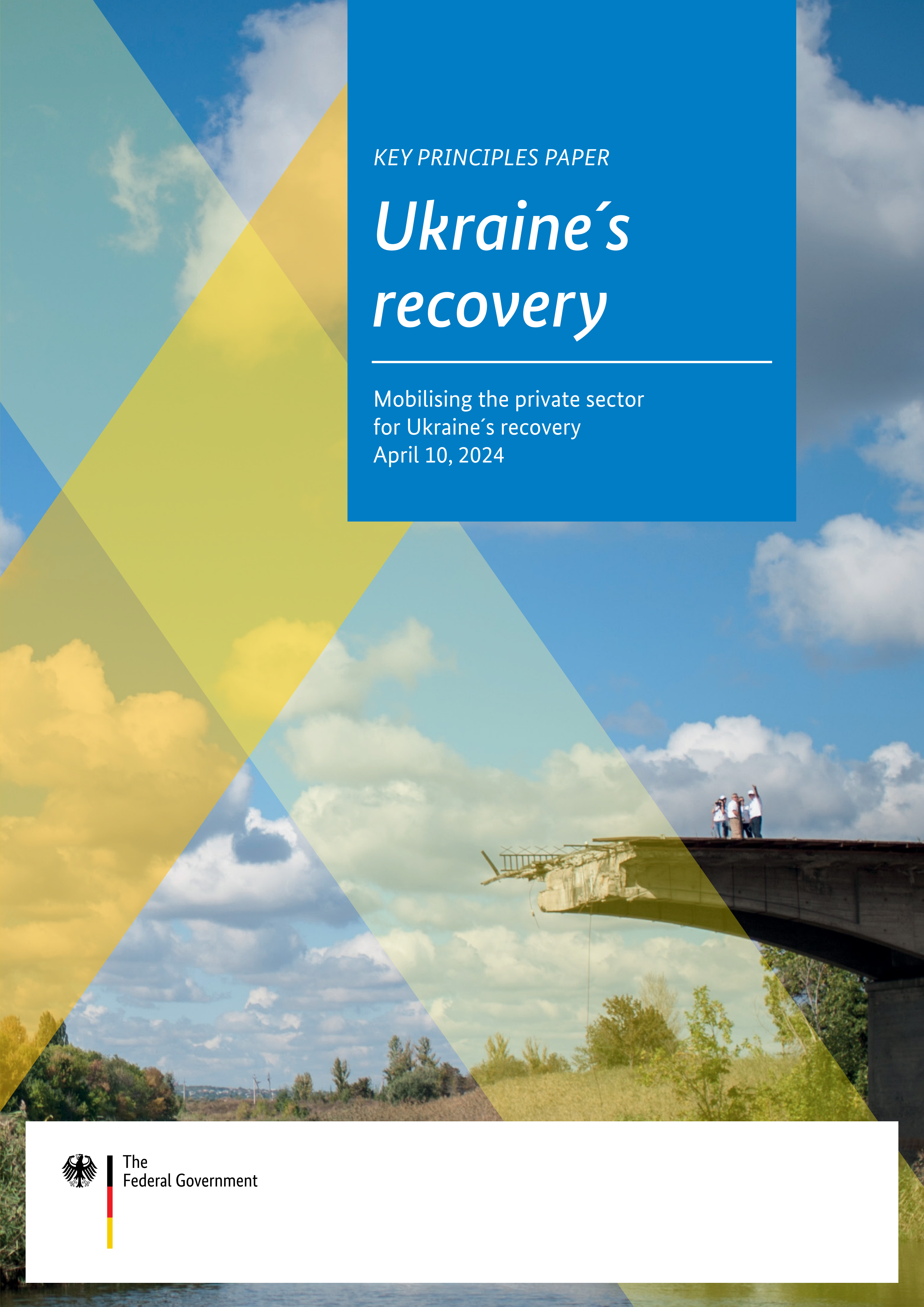

KEY PRINCIPLES PAPER

Ukraine´s recovery

Mobilising the private sector
for Ukraine´s recovery
April 10, 2024

The
Federal Government

Supporting mobilising the private sector for Ukraine's recovery

It is in Germany's interests to promote a stable, democratic and economically prosperous free Ukraine. Yet the **funding required for the country's recovery following its complete invasion by Russia and the resulting losses and damage cannot be covered from public sources alone.** The German government therefore intends to step up support for the private sector to become more involved in the recovery and modernisation of Ukraine and to benefit from the potential offered by closer cooperation. Germany and Ukraine firmly underlined that intention in their bilateral agreement on security cooperation and long-term support of 16 February 2024. In order to achieve this, the German government will, within the parameters of budgetary regulations, more closely dovetail bilateral and multilateral instruments for supporting private sector initiative and leveraging market capital.

Germany is already standing with Ukraine as one of its biggest supporters. The German government is promoting private engagement in support of recovery in Ukraine, for example by providing guarantees for German exports to Ukraine and investments in Ukraine, offering capital to investors at attractive conditions, supporting Ukraine's reform and modernisation efforts, increasing the investment capacities of Ukrainian businesses and helping to improve Ukraine's access to European markets. The risk coverage offered through Germany's guarantee instruments for exporters and investors is already very extensive by international comparison.

Against this background, one of the main aims of the 2024 Ukraine Recovery Conference is to come to an **agreement with our European and international partners on the key instruments necessary to mobilise private resources for recovery in Ukraine**. We want to pinpoint precisely which instruments are available to which type of investor (businesses, institutional investors, philanthropists, foundations). The German government will use the **G7+ Multi-Agency Donor Coordination Platform (MDCP)** to lend momentum to the mobilisation of the private sector for Ukraine's recovery. We will work closely with our Ukrainian partners in the run-up to the URC and beyond to develop a broad range of relevant instruments.

In order to ensure that the conference addresses the **mobilisation of the private sector** in the best possible way, the German government is actively involving businesses and business associations in the preparations. The URC is intended to offer businesses, investors and public partners a forum for discussion and laying the groundwork for cooperation. Businesses are also to have the opportunity to showcase successful investments in various sectors (e.g. energy, agriculture) and upskilling initiatives.

The German government is implementing the following measures to foster greater private sector engagement in Ukraine's recovery. The extent to which those measures with financial implications can be realised will depend on the budgetary parameters and the approval of the German parliament.

15 measures

More coordinated action

1. **Dovetailing of foreign trade promotion, development cooperation, bilateral, European and multilateral instruments – interministerial coordination at State Secretary level**

The German government will further mobilise the private sector in support of Ukraine by better coordinating instruments for foreign trade promotion and development cooperation and by using European and multilateral support instruments. In order to better coordinate and monitor implementation of measures for mobilising private capital, the State Secretaries of the relevant German ministries will meet regularly (Federal Chancellery, Federal Foreign Office, Federal Ministry of Finance, Federal Ministry for Economic Affairs and Climate Action, Federal Ministry for Economic Cooperation and Development, Federal Ministry of Food and Agriculture).

2. **More coordinated use of instruments for foreign trade promotion and development cooperation – GTAI, AHK and AWE**

In order to further promote private investment more, the Federal Ministry for Economic Affairs and Climate Action (BMWK) and the Federal Ministry for Economic Cooperation and Development (BMZ) will adopt a more holistic approach to coordinating foreign trade promotion and development cooperation. For example, information on all support measures offered by the German government will be drawn together within the **Ukraine Business Guides offered by Germany Trade and Invest (GTAI)** and made more accessible to German businesses. Cooperation will be strengthened between the **Import Promotion Desk** run by the Agency for Business and Economic Development (AWE), which has a mainly development policy focus, and the procurement initiative of the German-Ukrainian Chamber of Industry and Commerce (AHK Ukraine). Both initiatives are aimed at strengthening German-Ukrainian supply chains and the Ukrainian export industry.

3. **Rapid realisation of the EU-Ukraine Facility to mobilise investment capital**

The German government has successfully promoted within the creation of the EU **Ukraine Facility**, which will provide **50 billion euros** over the period 2024 to 2027. The facility will support Ukraine in implementing the reforms set out in the Ukraine Plan for **enhancing the environment for investment**. The **Ukraine Investment Framework** is one aspect of the facility. Its aim is to mobilise investment capital for the private sector in Ukraine through development finance institutions. It will do this by providing guarantees and grants up to 9.3 billion euros for blended finance.

4. International coordination for optimal public resource allocation

Multilateral development banks such as the **European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD)** and the **World Bank Group** have a scope for financing, e.g. in support of critical infrastructure, that is currently not available to the same extent to Germany's KfW promotional bank for reasons relating to German's budgetary laws. The EBRD also has the ability to provide guarantees to support private sector investment. This includes the ability to provide guarantees to support private sector investment. The German government supports these efforts, not least as a contribution to international burden-sharing. It advocates close coordination among the multilateral development banks on financing critical infrastructure and mobilising private capital so as to increase the transparency of existing and planned instruments (particularly cross-financing of various programmes), to avoid any crowding out, and to limit the administrative burden on Ukraine during the current crisis.

5. Strengthening of dialogue between the private sector and international donor coordination

The German government will facilitate the inclusion of the private sector in the **G7+ Multi-Agency Donor Coordination Platform (MDCP)** as part of the **Business Advisory Council**. The German government was amongst those who proposed the Council. It will meet for the first time at the URC in 2024 and its purpose is to intensify dialogue among the various business players, multilateral development banks and bilateral donors. The aim is to allow donor coordination to draw on the perspectives and recommendations of the private sector with regard to improving the climate for investment and mobilising resources for economic cooperation and recovery.

Promoting investment by private Enterprises

6. Support for strengthening the capacity of Ukraine's national system for economic promotion in order to mobilise private capital

In recent years, **Ukraine's Business Development Fund (BDF), attached to Ukraine's Ministry of Finance**, has become the key government instrument for promoting small and medium-sized enterprises. The KfW, acting on behalf of the BMZ, cofounded the BDF in 1999 and has financed several of its programmes. The German government will continue to support the interest subsidy programme for loans from Ukrainian banks to SMEs as part of the Business Development Fund. It will also support the Ukrainian Ministry of Finance in further strengthening the institutional capacities of the BDF so that it is even better equipped to address the needs of Ukrainian businesses and thus mobilise private capital. Over time, the aim is for the BDF to become a fully-fledged national business promotion institution for Ukraine (similar to the KfW in Germany). The KfW and possibly also other national and international institutions are to be involved in the process.

7. Investment and export guarantees make it easier for German exporters and investors to do business with Ukraine

Export credit guarantees and guarantees for foreign direct investments (investment guarantees) cover German companies for many of the export and investment risks associated with projects in third countries. By international comparison, German guarantee instruments already provide relatively broad risk coverage for exporters and investors. The maximum exposure limit for export credit guarantees for projects relating to Ukraine is already generous. Application procedures were simplified in 2023 and the degree of cover extended. Some 30 investment guarantees have been given for projects undertaken by German businesses since the war began. This includes the establishment of new industrial bases. Currently 46 investment guarantees are in place for projects implemented by 21 business groups. The total volume of cover (maximum liability) was around 340 million euros. In 2023, the cover by export credit guarantees amounted to around 170 million euros in total. It is the general policy to approve all applications that are deserving of support and where the level of risk involved is acceptable.

Where investment guarantees are provided to businesses by the German government or Hermes guarantees provided for exports to Ukraine, 5 per cent remain **uninsured**. Given that the government of the Federal Republic of Germany has a particular interest, it will examine in individual cases whether that uninsured percentage can be reduced to anything as low as 2.5% where export credit guarantees are concerned (Hermes guarantees).

In discussions with its international partners, the German government will urge them to also further develop their range of instruments for guaranteeing investments in Ukraine.

8. Efforts to eliminate further Ukrainian restrictions on foreign exchange transactions

The German government will continue its dialogue with the Ukrainian government on improving investment conditions for foreign companies. It will advocate with the National Bank of Ukraine for it to **lift further restrictions on foreign exchange transactions**. The aim is to further improve guarantee conditions for German investments so as to provide protection not only against the political transfer and conversion risk (which has been the case since July 2023) but also for equity participations.

Funding the business and energy infrastructure within the parameters of budgetary law: In view of the debt moratorium currently in place, there is no scope under budgetary law to cover any Ukrainian government's liabilities. It will therefore only be possible to utilise KfW market fund instruments which require a guarantee framework from the German government (**untied loans and other loans with a proportion of market funds**) after a debt agreement will have been concluded with Ukraine. With the aim of restoring and modernising the business infrastructure, the German government not only provides a limited volume of budget funds but also supports investments by multilateral development banks (cf. 3).

9. Grant fundings to support Ukrainian business

Small and medium-sized enterprises (SMEs) are the backbone of Ukraine's economy; they account for two thirds of value added and provide more than 80 per cent of the country's jobs. The German government uses **commitment authorisations** to strengthen instruments to leverage private SME capital (cf. 11). This may take the form of **providing first-loss capital for investment funds or subsidising credit lines for SMEs**. The provision of first-loss capital has, for example, allowed the **European Fund for Southeast Europe (EFSE)** to engage in investments totalling around 62 million euros with seven Ukrainian partner financial institutions. The **Green for Growth Fund (GGF)** is another example of risk capital from the public purse being used to leverage additional private capital, which is used to finance projects in support of renewable energies and for energy efficiency measures. BMZ is also investigating the possibility of providing equity for a planned region-wide guarantee fund to provide guarantees for MSME risks to Ukrainian financial institutions. The aim is to reduce the risks and costs of lending to Ukrainian enterprises. In advance of the Ukraine Recovery Conference on 11 and 12 June 2024 in Germany, a multi-donor alliance to strengthen the enabling environment for Ukrainian MSMEs is to be established.

10. Loans for German and Ukrainian businesses through the Deutsche Investitions- und Entwicklungsgesellschaft (DEG)

The German government will use the scope available to **DEG's subsidiary DEG Impulse** which operates with federal trust funds to support companies that wish to make long-term investments in Ukraine. This happens regularly through accompanying and promotional measures under **the Public-Private-Partnership Programme develoPPP**. Last year DEG Impulse and GIZ also staged a special develoPPP competition for Ukraine, with funding of 21 million euros on offer. The DEG's primary business was supported by funding from Business Support Services (commitments of 2.48 million euros in 2022 and 4.7 million euros in 2023). In the autumn of 2023, the revolving **development investment fund ImpactConnect** was piloted. It is able to offer loans of up to 5 million euros to companies making investments in Ukraine (or other countries) that offer added development policy value. (So far, loans of 5 million euros have been made to a construction materials business and a supplier to the automobile industry.) The German government will investigate the possibility of providing the DEG with more trust funds to fund loans of more than 5 million euros to German or European businesses or, indeed to Ukrainian businesses.

Investments by institutional investors, philantropists and foundations

11. Provision of an instrument to mobilise private capital for institutional investors, philanthropists and foundations in key sectors in Ukraine

The German government wishes to work with other international partners to establish an **equity fund to finance large-scale private investment projects** in key sectors such as energy, infrastructure, industry and agriculture using public and private capital. The aim of establishing an investment fund of this kind, through which funding from public donors is used to reduce the risk for private investors, would be to attract private capital. This kind of risk buffer provided by public donors would give financial market participants or philanthropists and foundations that would not otherwise invest in Ukraine an incentive to contribute to the country's reconstruction. Participation could relate to support for individual companies, certain key sectors or aspects of infrastructure. Within this context, the German government will also examine models that are currently being discussed, such as the Ukraine Development Fund (UDF).

Within the MDCP and in close coordination with Ukraine, our international partners and the European and international institutions concerned, the German government will advocate for a fund of this kind that meets common requirements regarding governance, efficiency as well as coherence with other financing instruments. An equity fund would complement insurance instruments such as the **Ukraine Recovery and Reconstruction Guarantee Facility (URGF)** currently being prepared by the **EBRD**. The aim of that facility would be to provide insurance to companies against war-related risks involved in domestic trade. The fund would also act as a complement to MSME funds such as the **European Fund for Southeast Europe (EFSE)**, which provides first-loss capital for investments with seven Ukrainian partner institutions, and the **Green for Growth Fund (GGF)**, which leverages risk capital provided by public institutions with additional private capital.

12. Mobilisation of private foundations and charitable donation initiatives for reconstruction

Through the **German Platform for the Reconstruction of Ukraine**, the German government will make conscious efforts to mobilise private foundations and charitable donation initiatives and explore the potential for synergies between charitable initiatives and instruments for reconstruction. That includes, for example, examining possible options for cooperation between **donors** and **public-private-partnerships**. The German government will also pilot appropriate initiatives for mobilising innovative funding instruments, such as **crowd funding**, for the purposes of reconstruction; in doing so, it will draw on international experience.

Creation of a functioning environment for doing business and promotion of multilateral initiatives in the spirit of burden sharing

13. Promotion of a functioning environment for doing business an alignment with EU standards

The German government is advising the Ukrainian government on creating a functioning environment for doing business and supports its anti-corruption efforts. **The EU's Ukraine Facility** combines investments with reforms. The German government will promote implementation of these reforms and advocate within the European Union and the MDCP for the implementation and observance of the reforms agreed on. The German government will continue to provide Ukraine with advice on dismantling specific barriers to trade. Germany's national metrology institute, the **Physikalisch-Technische Bundesanstalt (PTB)**, for example, is working on behalf of BMZ to support Ukraine in adapting its quality infrastructure (QI) to EU standards. The **Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)** has been advising Ukraine for many years on matters such as implementing EU regulations on trade and energy efficiency. The **German Foundation for International Legal Cooperation (IRZ)** has been supporting Ukraine for over thirty years on the rule of law. The focus has increasingly been on harmonisation with EU law in the judicial sector. Since the beginning of this year, GIZ has also been advising Ukraine on harmonising issues relating to the rule of law with the EU acquis. As a complement to this, the Federal Ministry for Economic Affairs and Climate Action plans to conclude an administrative partnership, with the support of the PTB and other German QI institutions.

14. Greater Integration of Ukraine into EU (raw materials) trade under the EU Critical Raw Materials Act

Within the framework of the EU Act on Critical Raw Materials, the European Security Strategy and also the Memorandum of Understanding between the EU and Ukraine on a Strategic Partnership on Raw Materials that builds on them, European efforts are to be backed up through bilateral investment (ideally as part of a concerted Team Europe Approach) and supported through complementary development cooperation measures and foreign trade promotion measures. In time, the EU and its member states could make a contribution through the Global Gateway, particularly regarding funding for infrastructure.

Examination of option to use blocked Russian public reserves for reconstruction

15. Common European approach to using interest earnings from sanctioned assets of the Russian Central Bank

The German government will continue to advocate for a common European approach to the possibility of profits generated from the holding of sanctioned Russian Central Bank assets being used for the reconstruction of Ukraine. It will consult and coordinate closely with its European partners, the EU Commission, the European Central Bank and also the governments of its G7 partners on risks and possible solutions.