Ukraine Development Fund (UDF)
A DFI for the reconstruction of Ukraine – Overview

June 2023
A national Development Finance Institution (DFI) can play a significant role in the reconstruction and modernization of Ukraine.

**Key challenges**

- **Insufficient private capital** to fulfill Ukraine's vast reconstruction needs
- **Ukraine needs an active role** in attracting investment into its reconstruction
- **Limited bankable projects** available to deploy committed capital

**Need for a national DFI: The Ukraine Development Fund (UDF)**

- **Ensure investment continuity beyond reconstruction**
  - Create a self-sustaining institution that maintains investment focus as international priorities and market conditions evolve

- **Mitigate risk/return imbalances and increase project pipeline**
  - Address funding gaps through concessional capital and expand bankable projects through advisory and structuring services

- **Align roles of local actors supporting the reconstruction**
  - Explicitly align Ukraine behind specific projects through broad government support and minority ownership ("skin in the game")

- **Incubate an industrial policy instrument for Ukraine**
  - Enable further investment in line with national industrial policy to help Ukraine become a world-leading investment destination
The UDF will play a central role in the ecosystem that focuses on the reconstruction and modernization of Ukraine

**Government of Ukraine**
Provides capital support in addition to non-financial assistance, signalling “skin in the game” to potential investors

Key building blocks:
- Capital endowment
- Regulatory and organizational support

**Design Advisors**
Strengthen credibility through best practices from leading sector specialists

Key building blocks:
- Organizational set up incl. legal, governance, organization design
- Investment, risk management and ESG framework
- Sector prioritization and pipeline development

**Capital Providers**
Provide capital support and guidance in early phases

Key building blocks:
- Capital from governments, philanthropies, etc.
- Interim decision-making support before UDF establishment

**International/Development Finance Institutions**
Provide scale to UDF investments by contributing additional capital to specific investments

Key building blocks:
- Strategic partnerships
- Framework agreements
The UDF will focus on mobilizing additional private capital and increasing the pipeline of bankable projects

1. **Provide ad hoc concessional financing**
   - Offer flexible, tailored financing to fill early stage or structural financing gaps and de-risk private capital
   - Provide investors with commitment of support from the Ukrainian government

2. **Support project and bid preparation**
   - Provide ad hoc preparation support to specific projects in a financially sustainable way
   - In the long term, set up of an unsolicited proposal framework to widen the pipeline of investment opportunities

3. **Outreach to FIs on deal environment**
   - Perform systematic stakeholder outreach to identify funding gaps, investment opportunities, as well as perceived risks and challenges
   - Maintain an open dialogue with financial institutions to promote investment opportunities and success cases

4. **Assist private sector sponsors**
   - Assist private sector sponsors to meet international documentation standards
   - Provide regulatory support in the form of quick consultations and collaboration in expediting government procedures
The UDF aims to help address a $50+bn¹ universe for private capital targeted by the UDF and other institutions investing in Ukraine across five key economic sectors, including:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure</strong></td>
<td>Includes investments into national roads and other public transport</td>
<td>&gt;20bn</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td>Includes existing and new renewable energy generation &amp; transmission</td>
<td>&gt;10bn</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>Includes investments into industry and commerce</td>
<td>&gt;9bn</td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td>Includes investments to replace damaged assets and machinery</td>
<td>&gt;7bn</td>
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<tr>
<td><strong>IT</strong></td>
<td>Includes investments to attract R&amp;D companies and support start-up ecosystem</td>
<td>&gt;1bn</td>
</tr>
</tbody>
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¹ The estimation uses the World Bank Needs Assessment report as a source and accounts for the funding needs based on three main assumptions: a 5 year time horizon, reconstruction and modernization focus, and general suitability of the asset type for private investment.
The UDF will be a standalone institution aiming for capital preservation and financial sustainability

**Ukraine Development Fund**

**Assets**
- Senior and subordinated loans
- Equity investments
- Cash
- Other assets (e.g. credit enhancements, securities)

**Off-Balance Sheet items:**
- E.g. Guarantees\(^1\), other contingent liabilities

**Liabilities / Funding**
- [Debt]\(^1\)
- Equity

**Revenues**
- Interest, dividends, returns on treasury activities, guarantee fees, advisory fees, other fees

**Expenses**
- Operating expenses like salaries, administrative expenses, IT, etc.
- [Interest expenses]\(^1\), costs of credit, applicable taxes

\(^1\) In the medium-to-long term, the UDF will consider raising debt from private and public markets, and issue unfunded guarantees based on a sufficient credit standing

**The UDF aims for capital preservation with a potential small return on capital**
Over time, the UDF will mobilize public and private investment across multiple channels

Sources of Funds / Support
- Public / Concessional
- Private / Commercial
- Other Public

Capital Providers
- Funding will be at concessional terms

Umbrella Fund for Pooled Concessional Funds
- Applies capital allocation to key sectors

Sector Specific Portfolios
- Portfolio 1 (e.g. Infra, IT)
- Portfolio 2 (e.g. Manuf., Energy)
- Portfolio [....]

Direct Deployment
- Some Portfolios will directly invest, alongside / de-risk private capital

Financial Intermediaries
- Some Portfolios will benefit from investing alongside / de-risking private capital in privately-managed funds
- Providing concessional capital to financial intermediaries to mobilize financing to all borrowers

Other Public Funding Deployment

Investments
- E.g. war risk, political risk insurance

Deal level investment at commercial terms

Private Capital

Additional Public Capital

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The UDF will build its capabilities over multiple phases

**Set-up Phase**
Establish foundations & initial investment pipeline

- Preliminary investment pipeline
- Legal establishment and incorporation
- Investment principles
- Key interim decision making bodies

**Expansion Phase**
Build up the balance sheet & organization

- Fund size of $3–4bn
- Executive management in place
- Significant headcount

**Build Phase**
Roll out of investment capabilities

- Endowment of ~$1bn to cover operating costs and first investments
- First executives and critical staff hired
- Initial investments

**Target State Phase**
Balance sheet & capabilities established

- Fund size between $5–10bn
- Headcount at target level