

Ukraine: Finding the Right Financial Solution Under Fragility and Conflict

The World Bank Treasury helped customize a USD eq. 1.49 billion IDA-IBRD blended financing package for the [PEACE for Ukraine](#) Project, allowing the government to optimize its fiscal space and maintain health, education and social protection services during the war.

Background

The war in Ukraine is devastating the country economically and socially. According to the UN, as of the end of 2022, the human toll showed [18,000 casualties](#), with an estimated [one-third](#) of Ukrainians being forced from their homes and [8 million fleeing](#) to neighboring countries. Public finances have also been a casualty of the war. Despite cuts in non-priority areas, large social and wage bill spending is needed to keep the government of Ukraine operating.

To alleviate part of the challenge, the World Bank approved a USD eq. [1.49 billion Investment Project Financing](#) to support Ukraine. The financing package blended a USD eq. 1 billion IDA non-concessional credit with a USD eq. 492 million IBRD loan. It also utilized four bilateral guarantees¹, from the United Kingdom, the Netherlands, Lithuania, and Latvia, to partially cover IBRD's exposure to Ukraine.

The financing of the project had several repayment constraints.

The IDA credit repayment schedule was tight, limited by eight years of ARM² and a 10-year final maturity. The government chose a repayment schedule with bi-annual installments of USD eq. 84 million, over six years (from 2026 to 2032), after a four-year grace period.



Ukrainian refugees at the Slovakia border, Adobe Stock

The IBRD portion of the repayment was relatively flexible but subject to a 12-year ARM for Fast Disbursing Operations³.

Historically, Ukraine has always selected a level amortization repayment profile for their IBRD loans, repaying the same principal amount every semester. However, this time, a level repayment profile was not to their advantage as it would have led to overlapping IDA credit and IBRD loan principal repayments during 2026-2032 (Figure 1). This would result in a combined USD eq. 101 million of principal repayments bi-annually for the government from 2026 to 2032 and create a fiscal burden for Ukraine when they would mostly need fiscal space.

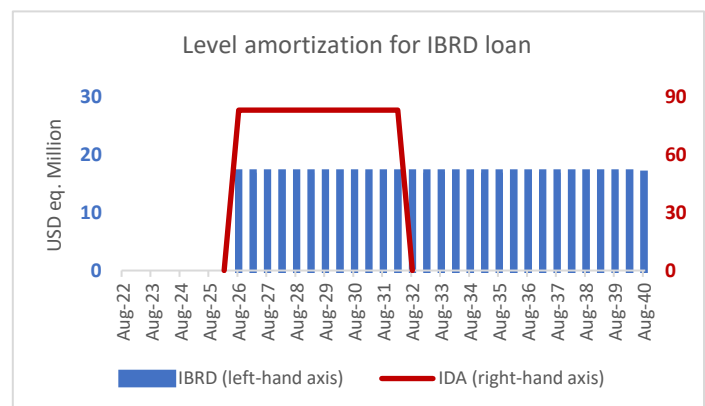


Figure 1

¹ Bilateral guarantee by highly rated sovereign supports financing to a specific country beyond IBRD lending capacity. IBRD is the lender of record but in the event of a default, the Bank exercise the guarantee and the guarantor will seek recovery on their own.

² Average Repayment Maturity defines the speed at which a loan is repaid.

³ Fast-disbursing operations are all DPF, or any IPF or PforR with 60% or more disbursement from the board approval date.

Financial Objective

The goal was to maximize the available fiscal space for the government during the war and later during reconstruction by smoothing Ukraine's financial burden when IDA credit and IBRD loan repayments overlap.

Financial Solution and Outcome

For this operation, several options were analyzed and based on the government's feedback, two options were further explored.

Option 1 (See Figure 2). The IBRD principal repayment would start earlier with a lower grace period than the IDA credit to reduce payments during the overlapping period by 71 percent compared to the level repayment profile.

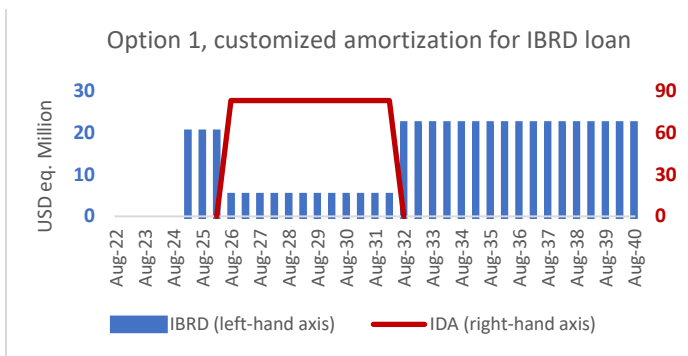


Figure 2

Option 2 (See Figure 3). The IBRD and IDA principal repayments would start simultaneously after a four-year grace period, however with a lower repayment amount of the IBRD loan during the overlapping period, by 25 percent compared to the level repayment profile, and a higher repayment afterward.

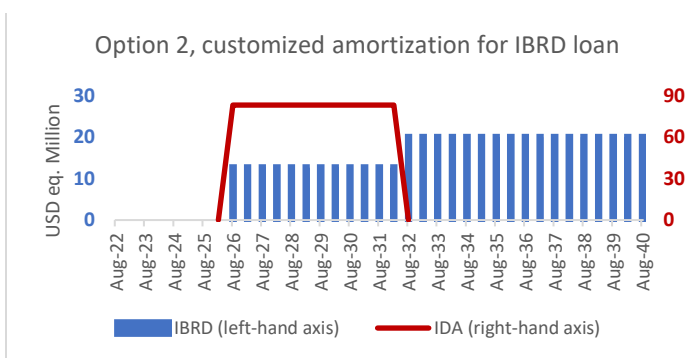


Figure 3

The government selected Option 2 with the double objective of (i) maximizing the fiscal space during the war effort with a longer grace period, and (ii) reducing the debt repayment burden during the overlapping period (when the country might need financial resources for reconstruction).

World Bank Treasury's Role

- **Identified Ukraine's potential fiscal burden** with a level repayment and advocated for a customized repayment profile.
- **Highlighted the benefit of customizing the IBRD loan against** the level repayment profile given the country's situation, working closely with the World Bank Group Finance and Accounting (WFA).
- **Designed several financial scenarios** to help the government decide the best repayment profile that would meet Ukraine's debt and fiscal challenges in the medium term.

The Treasury team helps borrowers understand and efficiently use the full range of financial products available from the World Bank to meet their specific debt management or project needs. In Ukraine's case, the team customized the debt repayment profile to prevent the clustering of high debt repayments. This allowed the government to maximize its fiscal space during the war effort.

	IDA Financing	IBRD Financing
Amount	USD eq. 1 billion	USD eq. 492 million
Final Maturity	10Y	18.5Y
Grace Period	4Y	4Y
ARM	7Y	12Y
Repayment	level	customized