



Ukraine Economy of the Future (UEF)

DRAFT Private Capital Mobilization

Meeting Ukraine's Investment Needs for Reconstruction and Growth

February 2026

WORKING DRAFT FOR INTERNAL USE - NOT FOR CIRCULATION

OUTLINE

1 Investment Needs, Public vs. Private Contributions

2 Sources of Private Capital and Investor Constraints

3 **Deep Dives:** 1) Domestic Financial Sector; 2) Derisking (Insurance)*; 3) Private Equity and Venture Capital; 4) Foreign Direct Investment

** Cf. McKinsey's complementary analysis of broader options for private capital de-risking*

SUMMARY MESSAGES

1. A large, sustained increase in (private) investment is needed to support economic recovery and reconstruction

- Income convergence would require annual investment rates to grow from of 12-16% (pre-war average) to 19% to 24% of GDP in the steady state (after an immediate post-war investment boost).
- Private investment would account for the bulk of this scale up (13.5 - 18.5% GDP vs. 5.5% for public investment)

2. Multiple sources of domestic and foreign private capital can be tapped to support the needed investment scale up

- Private capital mobilization (PCM), from both domestic and foreign sources, is crucial to finance investment needs. While firms' own funds will continue to finance most of CAPEX in the short term, the share financed by third parties will have to gradually increase over time (~\$90 bn would be raised from different types of third parties over the first 5 years).
- Each capital source has specific characteristics, requiring a strategic and tailored approach to unlock financing potential and ease constraints related to investor needs.
- Specific reforms will complement cross-cutting improvements in the general economic framework, investment climate reforms – including scaling up derisking instruments - , financial sector development, and complementary public support/investment.

3. Deep dives

- Comprehensive **domestic financial sector reforms** are needed to unlock domestic banking sector liquidity and facilitate inward investments.
- **Insurance instruments** fostering investments in Ukraine need to be scaled up.
- **Private equity (PE) & venture capital (VC) funds** have potential to increase rapidly post war, contingent on derisking and having a pipeline of bankable projects.
- **Foreign direct investment** – both the quantity and quality - could increase post war, contingent on derisking and reforms.

A large, sustained increase in public and private investment is needed to support economic recovery and reconstruction

Significant increase in annual investment from 16% of GDP (pre-war average) to just below 30% during reconstruction, converging to a steady state* of 19% in the moderate-reform scenario and 24% in the high-reform scenario. **Private investment will comprise 75-80% of total investment over 10 years** as public capital expenditures will be fiscally constrained (assume constant as % of GDP in both scenarios).

- Moderate growth scenario:** Total annual investment rate of 19% of GDP in the steady state from t+7 (5.5% public and 13.5% private).
- High growth scenario:** Total annual investment rate of 24% of GDP in the steady state from t+8 (5.5% public and 18.5% private).

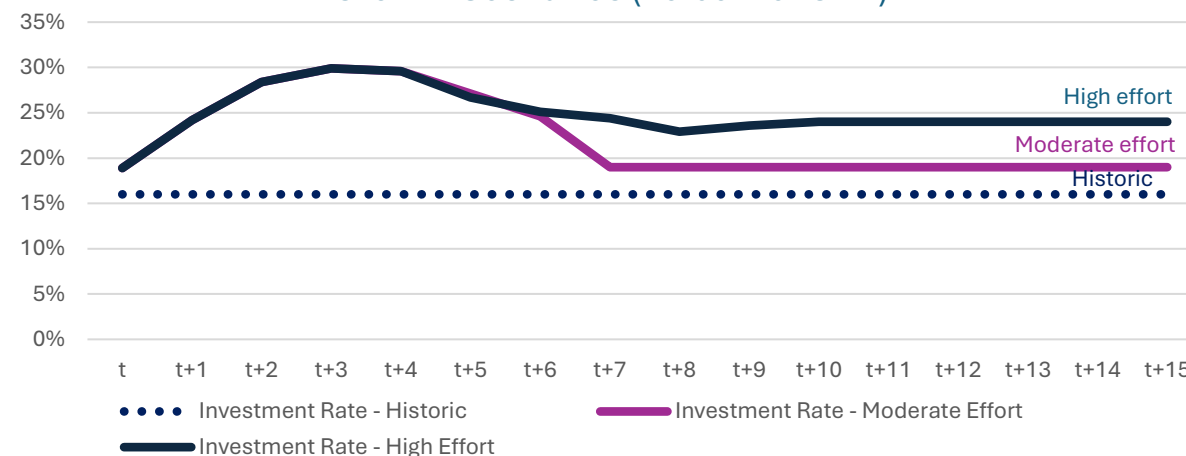
Investment profile drivers:

- Ramp up of reconstruction investments** (+500bn of RDNA4 needs over 10 years**), starting at 12% of GDP in t, ramping up to 25% in t+3 and t+4, and then starts to ramp down.
- Ramp up of growth-enhancing investments** - in the high effort scenario =250bn over 10 years, starting at 6.5% of GDP in t, remain constant in USD terms until t+5, and then increases and becomes higher than reconstruction investments and more than 10% of GDP by t+8.
- Consistent with a transition of growth drivers from **reconstruction to endogenous investment and productivity driven growth** between t+5 and t+8

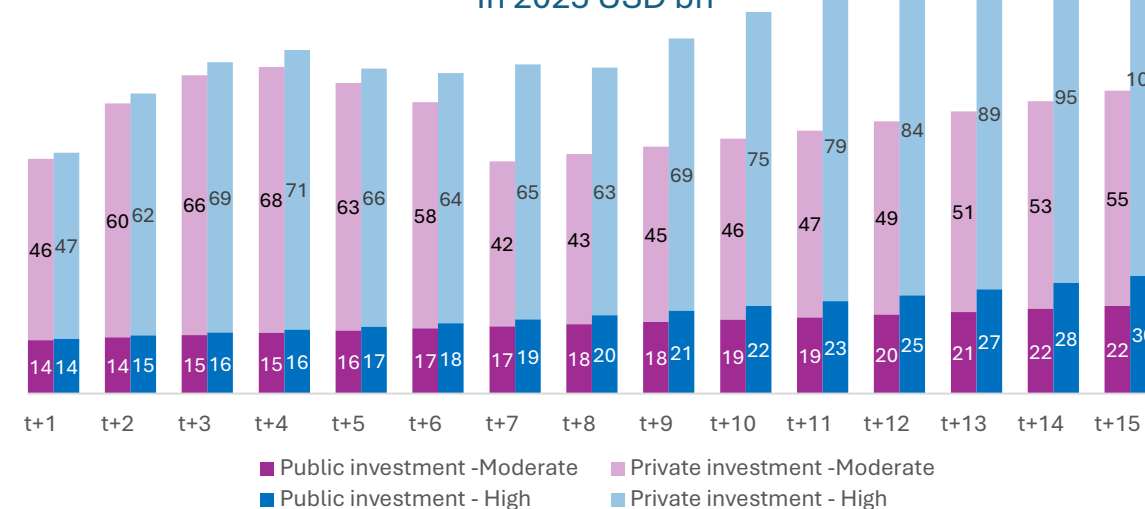
*Steady state refers to the year the rates stabilize during the period to t+15.

**Rapid Damage Needs Assessment 4, Feb 2025, assesses reconstruction needs of USD 524bn over 10 years. While the majority of this would be capex, some current expenditures for recovery programs are included.

Annual Total Investment Rates, Historical (pre-war) and by Growth Scenarios (Percent of GDP)



Public and Private Investment Needs
In 2025 USD bn



Multiple sources of private capital, both domestic and foreign, can be tapped to support the needed investment scale up (1/2)

The PCM agenda covers different sources of commercial capital, incl. some public ones (e.g. SWFs), while DFI and concessional funds are leveraged for derisking/blending and as anchor investments.

- Different sources can scale investment financing (esp. long-term) in key sectors (e.g., infrastructure, agriculture, manufacturing, housing, tech) and for policy priorities (e.g., higher value addition, decarbonization, inclusion).
- Historically ~80% of private CAPEX has been financed by firms' own funds, but larger investment rates will require gradually increasing the share of funds raised from third parties (assumed to grow from ~30% to ~50% between t+1 and t+15).

Financing investment requires mobilizing more foreign and domestic capital:

1. Domestic sources, including:

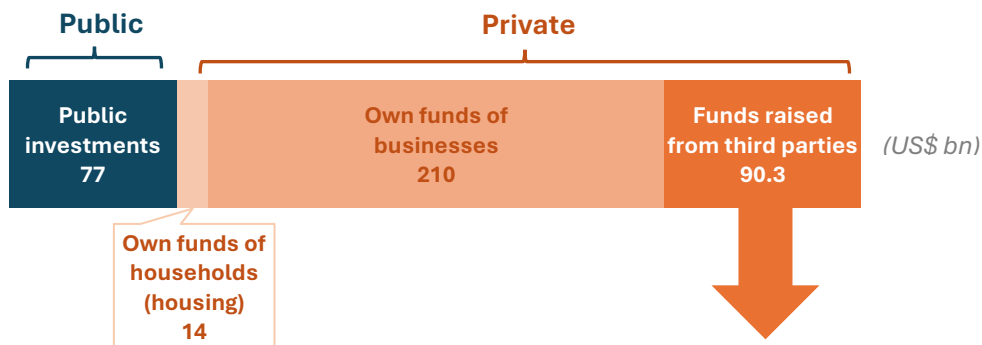
- The **banking sector** has large liquidity that need to be deployed for productive investments by businesses and households. Many **firms** have also delayed investment and hold cash.
- Like in many MICs, **non-bank financial institutions (NBFIs)/institutional investors** hold a small share of domestic financial assets and **capital markets** are still underdeveloped in Ukraine. In the medium-term, they could help attract capital from institutional investors and the public.

2. Foreign sources, including:

- **Foreign Direct Investment (FDI)** is a crucial source of capital, but also of technology, know-how, and access to global markets.
- Other capital sources, including **institutional investors, PE/VC funds, banks** and **Ukrainian capital abroad**, could be tapped to finance investment projects.

Multiple sources of private capital, both domestic and foreign, can be tapped to support the needed investment scale up (2/2)

Estimated investment sources from t+1 to t+5 (2027-2031) under the UEF “high growth” scenario



Estimates for key funding sources	US\$ bn
Local banks - corporate CAPEX loans	13
Local NBFIs	4
Local banks - mortgages	4
Individual investors (excl. housing)	4
External loans to private sector (incl. IFIs)	44
FDI (CAPEX only)	20

Key assumptions*

- **Aggregate investment level:** Totals for public and private investment are taken from the UEF growth-fiscal scenario modelling.
- **Own funds:** The share of private investment financed through companies' own funds is based on historical numbers with an average >80% during 2017-2021 (UkrStat). Despite data limitations (companies often cannot accurately match investments with specific funding sources), this gives a sense of own funds' role in CAPEX funding. Private CAPEX expenditure remained >14% of GDP during this period despite heavy deleveraging of the local businesses - bank loans and external debt were declining in relation to GDP.
- **Funds raised from third parties for private CAPEX**
 - **Loans from local banks** are assumed to increase over time, starting below 10% of GDP and gradually converging toward the regional average at ~25% by 2035; the share dedicated to CAPEX projects is assumed to grow temporarily to 60% during the reconstruction surge and then stabilize at 40%.
 - **Local NBFIs and individual investors** are assumed to grow - thanks to reforms - but slowly from a very low base.
 - **Mortgages** are assumed to gradually replace households' own funds as the main financing source, with total housing finance staying constant at 1.3% of GDP.
 - **Foreign loans** is based on historical trends but assumes a significant upsurge in debt post war (~4% GDP) and then normalize to just under 2% of GDP by 2033.
 - **FDI** is based on modeling work which assumes a significant increase over the coming years compared to pre-war levels, stabilizing at 3.8% of GDP by 2028, and assumes a 40% share for CAPEX FDI.

Source: World Bank Group analysis

*Note: These assumptions are grounded in historical trends on CAPEX financing, including for the share financed through firms' own funds. McKinsey's complementary work on derisking capital is based on the same growth/investment projections but assumes higher share of debt financing to enable sufficient leverage, which is largely sourced externally given constraints in the domestic financial sector.

2

Each source has specific characteristics, requiring a strategic and tailored approach to unlock financing potential

Origin	Capital source	Main financing types / vehicles	Project type / sector	Risk appetite	Status	Scale up horizon
Domestic	Corporates / SMEs	Profit reinvestment / equity, PPPs, privatizations	Varied project size across manufacturing, infrastructure, extractives, services	Moderate	Limited during war but increasing CAPEX (e.g. distributed energy), largely funded by own funds (~70%). Initial momentum on PPPs / privatizations.	Short / medium
	Local banks (domestic, foreign and SOBs)	Corporate loans, project finance, equity mortgages	Small/medium projects across sectors, SME finance, housing	Moderate	Private sector credit to GDP:13.4%, excess liquidity (~\$15b), gradual recovery of corporate lending. But currently crowding out by public borrowing.	Short / medium
	Households	Savings investment through capital markets, crowdfunding / fintech platforms, housing	Varied	Varied		Medium / Long
Domestic & foreign	Institutional investors, incl. domestic NBFIs (e.g. insurers) and global players (e.g., SWFs, pension funds, asset managers)	Debt/bond and equity through capital markets	Large projects/companies across sectors, public investment (e.g., infrastructure), aggregation platforms	Low	Nascent domestic capital markets beyond government bonds. Limited integration with foreign markets.	Long
	Private Equity (PE) funds, Venture Capital (VC) funds / Angel investors	Early-stage risk capital, growth equity	Corporates across sectors incl. infrastructure; Start-ups	High	A few active early movers in some sectors but still limited (<\$1b). Many legally established overseas.	Short / Medium
Foreign	Multinational corporations	FDI (greenfield, M&A, JVs), PPPs	Medium/large projects in manufacturing, infrastructure, extractives, services	Low	Limited, mostly reinvested earnings by MNCs already present.	Medium
	Foreign banks (without local presence)	Loans / syndicated loans, equity	Large projects, infrastructure, privatizations	Low		Medium / Long
	Diaspora and individual investors	Remittances, capital repatriation, crowdfunding, bonds	Varied	Varied	Significant but declining personal remittances received (6.3% GDP in 2024 vs. 11.2% in 2018). Foreign individual investors in local bonds <\$20mn	Short / medium
	Multilateral Development Banks (MDBs)/ Development Financial Institutions (DFIs)	Equity, soft loans, grants, guarantees	Mobilize private co-investment for large projects / infra + SMEs (financial intermediation)	Moderate	Active	Short

Mobilizing private capital requires addressing constraints related to specific investor needs and the domestic investment climate...

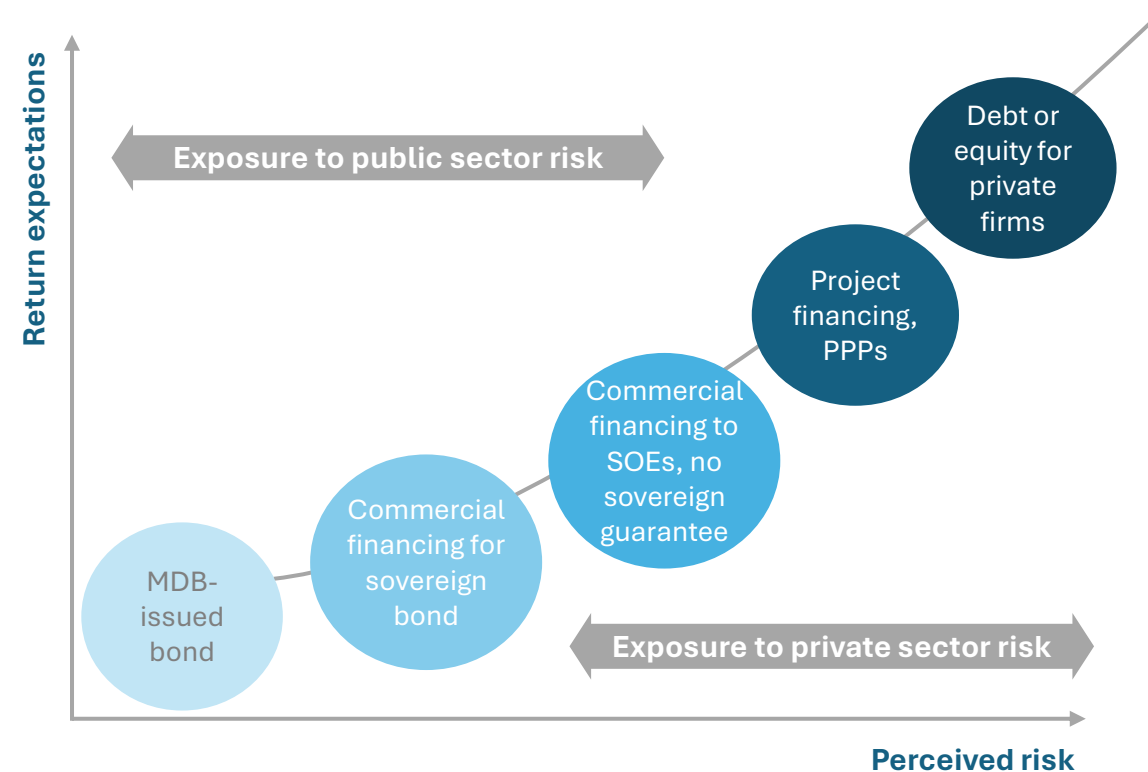
Specific investor constraints/concerns in terms of regulatory requirements, risk-return preferences, focus sectors/project types, etc.

- **Local banks:** Limited risk appetite, lack of bankable clients and projects, legal uncertainty (e.g. insolvency, foreclosure), more attractive alternatives such as government bonds.
- **MNCs:** High country risks/lack of affordable insurance, investment climate shortcomings, limited country knowledge and lack of local partners
- **Foreign banks/institutional investors:** High capital charges on sub-investment grade assets. Require risk mitigation and scale/aggregation, alignment with EU/international standards.
- **VC/PE funds:** Lack of investible companies and institutional investors to back funds.

Domestic environment:

- **War-related constraints** (e.g., physical risks, macro-financial, labor, energy) and **opportunities** (reform progress, EU integration)
- **Longstanding weaknesses** shared with many MICs (business regulatory environment, governance, competition, financial sector, lack of rated borrowers and pipeline of large bankable projects)

+ **Challenging global context.** Capital flowing out of EMDEs due to successive economic and geopolitical shocks since COVID. FDI flows to LMICs at their lowest in 2 decades with increased competition for investment.



...as well as cross-cutting improvements in the general economic framework, investment climate, financial sector development and public support

General economic framework

Ensure a stable, transparent and predictable environment for investors

- Macro-financial stability, capital controls
- Governance, rule of law, property rights/IPR, contract enforcement
- Business regulations

Investment climate

Implement reforms opening markets and investment opportunities

- **Foreign Direct Investment (FDI): Investment policy & promotion, aftercare**
- Horizontal reforms (e.g., PPP framework, SOE/SOB reform and privatizations, competition)
- Sectoral reforms (energy, defense/dual use, tech, industry decarbonization)
- **Derisking and blended finance (insurance, guarantees, grants,)**, international investment facilities (e.g., EU, US)

Financial sector development

Strengthen sector capacity and develop new financing instruments

- Resolve structural issues (state footprint, non-performing loans (NPLs))
- **Unlock excess liquidity in the banking sector**
- Sectoral financing solutions (SMEs, innovation, infrastructure, housing/construction)
- Strengthen development finance framework
- **Develop capital markets and institutional investor base**
- **EU standards alignment and PS integration**
- Fintech, Digital Financial Services (DFS), crowdfunding
- Diaspora financing (remittances, bonds)
- Environmental, Social and Governance (ESG) / Green finance

Public support

PIM, targeted support firms and invest in public goods

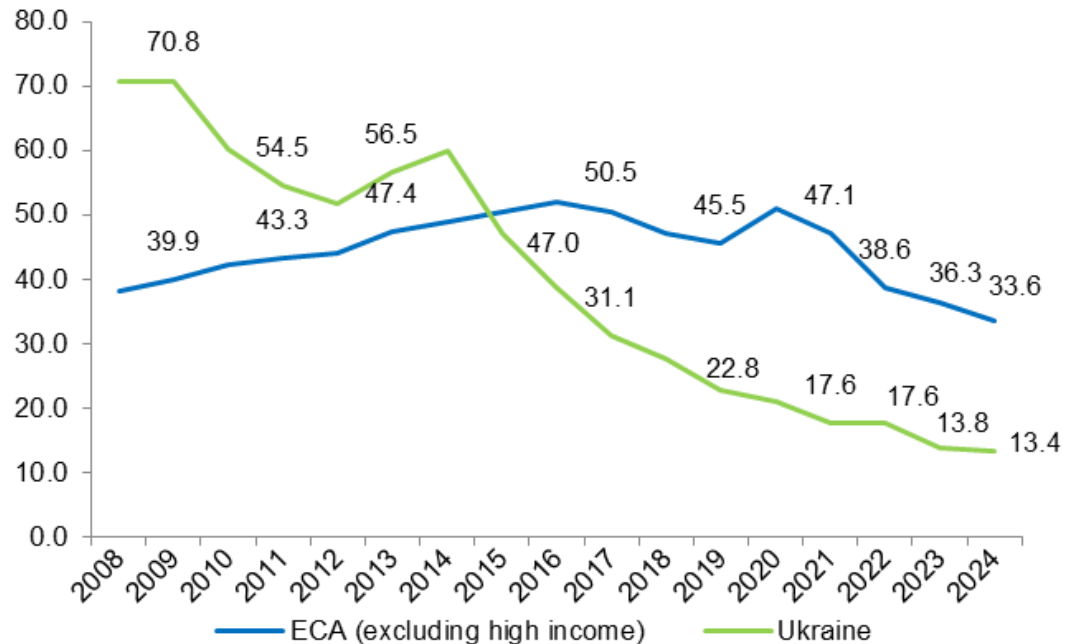
- **Firm support programs and incentives**
- Human capital
- Public infrastructure investment, Project pipeline, Project Preparation Facility (PPF) and information on investment opportunities
- Trade facilitation and infrastructure connectivity

Comprehensive financial sector reforms can unlock domestic banking sector liquidity and facilitate inward investments (1/2)

Financial intermediation and diversification is low while banks remain very liquid:

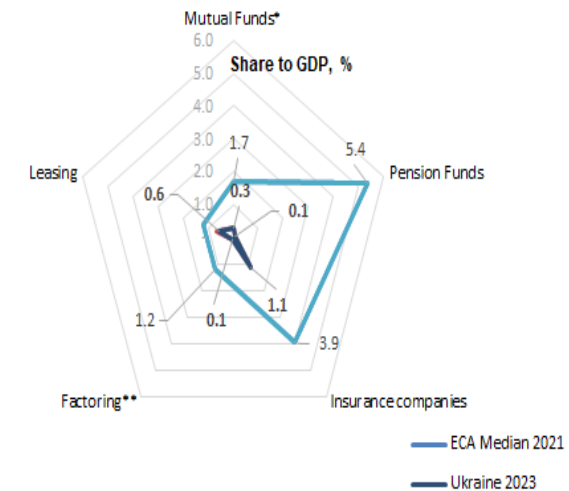
- **Local banks:** Private sector credit to GDP:13.4%, excess liquidity (~\$15b), gradual recovery of corporate lending. But currently crowding out by public borrowing.
- **Institutional investors, incl. domestic NBFIs:** Nascent domestic capital markets beyond government bonds.

Domestic credit to private sector by banks (% of GDP)



Source: World Development Indicators ,WB

Benchmarking Ukraine's non-bank financial institutions by share of GDP



Source: NBU, FinStats and staff calculations.

Note. *For Ukraine, not including "venture" type funds ** For Ukraine, factoring from banks only

Comprehensive financial sector reforms can unlock domestic banking sector liquidity and facilitate inward investments (2/2)

Policy Agenda Key Interventions

Short-Term (0-2 years)

- **Improve efficiency, targeting, and sustainability of state firm support programs**
- **Strengthen derisking, structured finance, and hedging instruments** against currency devaluation) -> *see further details on wider private capital de-risking instruments in McKinsey presentation.*
- **Enhance mechanisms for housing finance** and related enabling environment reforms (eOselia reform, foreclosure and housing construction finance reforms)
- **Foster integration in EU payment system infrastructure** (fast payments implementation, SEPA accession, adopt cashless roadmap).
- **Regulatory equivalence:** continue aligning Ukraine's banking regulation (almost 80% equivalency), ongoing work on NBFIs and capital markets legislation.
- **Strengthen SOB governance and reduce state footprint** (new SOB strategy, privatization, strengthen independent SB selection methodology)

Medium-Term (2-5 years)

- **Create a vertically integrated market infrastructure to unify trading and settlements.**
- **Strengthening the securities regulator** in line with International Organization of Securities Commissions (IOSCO) standards and introduce an investor protection system.
- **Develop the institutional investor base** (Reform of pension system and introduction of Pillar II once conditions allow, reform of collective investment institutions)
- **Develop a corporate bond market** including by creating a level playing field with government bonds as regards to taxation, green as well as infrastructure/reconstruction/diaspora bonds and development of securitization and covered bonds mechanisms



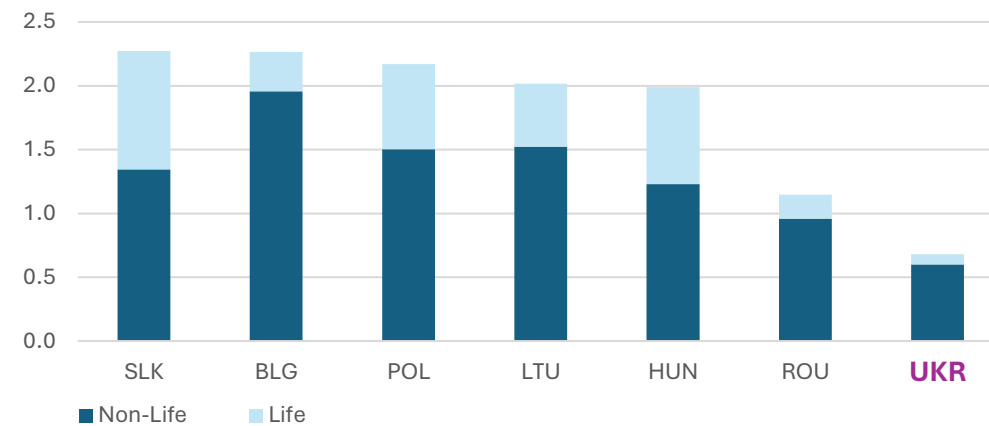
Estimates on potential :

- **Domestic banking sector: Net commercial loans = 25% of GDP in 2035 vs 8% currently**
- **Corporate bond penetration: USD10bn till end of 2035, or 4% of GDP vs <1% currently.**

Insurance instruments fostering investments in Ukraine need to be scaled up (1/2)

- **Domestic insurance sector capacity remains the lowest in Europe:** penetration $\approx 0.7\%$ of GDP (vs. 5.7% in Europe average). Life segment extremely small (0.07% of GDP)¹
- **Non-life growth driven mainly by motor:** MTPL reform and C&C fuel premium growth ($+46\%$ y/y), while property, SME, agricultural and liability lines remain underdeveloped.
- **War risk insurance (WRI) coverage extremely shallow:** only $\sim 19,000$ domestic policies included war-risk elements in 2024; WRI premiums $\approx \$10\text{m}$ - mostly motor casco; large-risk WRI still backed primarily by IFIs and global brokers. Ukrainian insurance companies have compensated over $\$8\text{m}$ of war-related losses since 2022.
- **Regulatory transition ongoing:** Solvency II alignment underway but not yet fully implemented, creating short-term compliance pressure.

Insurance Penetration: Ukraine vs. Bottom-6 European Countries (GPW²/GDP, 2023)



Europe average – 5.7%

¹Source: OECD Global Insurance Statistics; NBU Statistics

²GPW – Gross Premium Written

War Risk Mitigation Instruments*



\$ 6,2 m+
supported
investments
in 2024-2025



MCGILL
AND PARTNERS

\$ 585 m+

Various programs providing extra capacity for war-related risks insurance coverage proposed by IFIs and international reinsurance market players

MS Amlin



AON

European Bank
for Reconstruction and Development



wtw

LLOYD'S



ASCOT INSURANCE GROUP



\$ 454 m

SURE TF: guarantees to support trade and continued lending to firms



MINISTRY OF ECONOMY,
ENVIRONMENT AND AGRICULTURE
OF UKRAINE



National Bank
of Ukraine

\$ 25 m

State Compensation Mechanism for damaged/destroyed business assets & insurance premiums. Jan.2026 – start.

4 Insurance instruments fostering investments in Ukraine need to be scaled up (2/2):

Timeframe	Insurance reform policy agenda: Key Interventions		Expected impact
	Short term (2026-2027)	Medium term (2028-2030)	
Regulatory Reform → Moving Towards Solvency II (SII)	<ul style="list-style-type: none"> Update Insurance Law to align with Solvency II Adopt secondary regulations and an implementation roadmap Build supervisory and industry capacity, on valuation, solvency calculation, reporting, IT systems Conduct a Quantitative Impact Study (QIS) to assess insurers' solvency against SII 	<ul style="list-style-type: none"> Implement Solvency II reporting, valuation, and governance standards Strengthen insurers' internal risk and capital management Progress toward EU supervisory convergence 	<ul style="list-style-type: none"> <i>Higher solvency: EU avg. SII ratio >210% vs. ~150% under Solvency 1</i> <i>Stronger governance & risk culture</i> <i>Increased investor/reinsurer confidence</i> <i>Greater market trust and sector growth</i>
Market Development → Enhancing Private Risk Transfer	<ul style="list-style-type: none"> Introduce transitional war-risk compensation mechanism Standardize WRI wording to international standards Adopt and implement war risk insurance mechanisms that crowd in private sector insurers and reinsurers 	<ul style="list-style-type: none"> Transfer mandatory occupational accident insurance to private market Allow life insurers to participate in long-term savings within the funded pension pillar alongside pension funds Build national databases for PVI/WRI and catastrophe risk 	<ul style="list-style-type: none"> <i>Greater resilience to war and catastrophe risks</i> <i>Faster, cheaper post-war recovery</i> <i>Reduced long-term fiscal burden</i> <i>Sustainable, private-sector-driven risk-transfer ecosystem</i>

¹WRI – war risks insurance, covers only risks related to war; ²PVI – political violence risks insurance, covers losses caused by politically motivated acts such as terrorism, sabotage, riots, civil unrest, and war-related incidents.

Private equity (PE) & venture capital (VC) funds have potential to increase rapidly post war contingent on derisking and having a pipeline of bankable projects (2/2)

Historical performance and trends: >1.4k deals for ~\$9b aggregate investment since 2014, incl. VC (~65%), PE (~7%), as well as M&A (~25%) and other transactions (3%)

- **Pre-war momentum:**

- Small but growing PE/VC markets, led by tech; ~\$4.5b investment since 2014. First unicorn in 2018.
- Record year in 2021 with 200+ deals and ~\$2.7bn investment; Large transactions in IT/tech, energy, and agribusiness.

- **War-time shock & resilience:**

- Sharp dip in 2022 (~\$880m)
- Adaptation and partial recovery since 2023, with higher number of deals incl. from foreign investors, but still small average size; Focus MilTech and Energy/Infra.
- Institutional anchors with BF-enabled IFI equity commitments in early-stage funds (e.g. Flyer One Ventures V) + pipeline to raise >€600m across infrastructure/PE/VC

- **Post-war potential:** Market recovery scenarios over 2026-2029 based on macro/political developments: pessimistic (\$8b total), baseline (\$10b) and optimistic (\$14b).

- *Short term (0–2 years):* Capital mobilized primarily via derisked, DFI-anchored VC/PE vehicles, continuation of grant-based seed programs (e.g., Google, EIC). Focus security and reconstruction
- *Medium term (3–5 years):* Gradual arrival of new investors as donor-backed investment instruments (e.g. UIF) and WRI expand; Diversification in key sectors for growth and economic modernization
- *Long term (5–10 years):* Maturing markets with IC reforms and EU alignment, growing and presence of regional/global investors, more exit opportunities with capital market development.

References: [UVCA](#), [IFC](#)

Ukrainian investment markets (incl. PC, VC, M&A)



Source: Adapted from UCVA data and estimates

Private equity (PE) & venture capital (VC) funds have potential to increase rapidly post war contingent on derisking and having a pipeline of bankable projects (2/2)

Ecosystem

>2,600 active start ups, combined value up 3x since 2020; 10 unicorns with international capitalization; increasing international integration. Some start ups relocated abroad.

Constraints: Lack of investible companies meeting institutional requirements (corporate practices, financial reporting)

Ukraine-focused funds (~28 VC / 12 PE) currently attracting >\$4b new capital, strong project pipeline. Foreign investors still represent 30-40% of flows (vs. ~60% before the war)

Constraints: Shortage of institutional investors/LPs to back funds (~1/2 CEE region average). Limited activity of international/regional funds (domestic investment = 55% deals vs. 40% pre-war)

Immediate / short term (0-2 years)

1. Expand and deploy derisking instruments (e.g., guarantees, war/political risk insurance, currency hedging) and DFI equity facilities
2. Strengthen the pipeline of bankable projects (e.g. donor technical support/innovation grant programs, PPFs, privatizations, PPP framework)

Medium term (3-5 years)

1. Support start ups/SMEs to improve investibility, promote corporate governance standards
2. Develop the broader innovation ecosystem, incl. R&D, skills, digital infrastructure, incubators (→ cf. *UEF Innovation*)
3. Develop domestic capital markets
4. Deepen integration in EU financial markets and regulatory alignment

General enablers (continuous)

1. Maintain macro-financial stability
2. Strengthen the general investment climate, incl. governance, rule of law, competition policy, property rights, contract enforcement, business regulations, etc.
3. Advance conducive regulations in key sectors (e.g. defense, energy)

Foreign direct investment quantity and quality could increase contingent on derisking and reforms(1/2)

Historical performance and potential:

Modest pre-war trends:

- FDI stock and inflows have historically lagged regional peers, with high volatility and concentration in low-tech sectors.
- EU countries have become the dominant source as Ukraine's economy reoriented towards the West after 2014, followed by the US and UK. China's presence is limited.

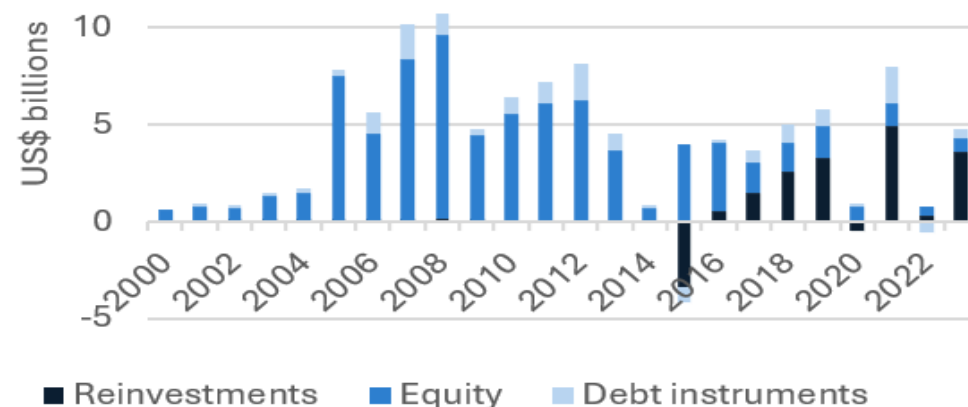
Current situation (2022–2025):

- FDI inflows remain subdued, dominated by reinvested earnings due to war-related risks and capital controls.
- Greenfield investment announcements rebounded in 2023–24, (e.g. IT, defense, selected manufacturing), but overall levels are still low.
- FDI is highly concentrated in Kyiv and western regions.

Post-war potential:

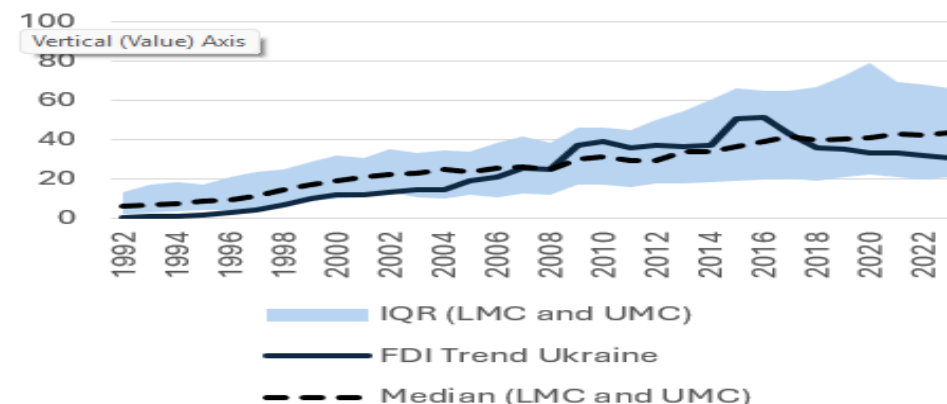
- Challenge to increase FDI quantity/quality in a context of declining global FDI volumes, leveraging opportunities incl. EU integration
- Economic modeling suggests FDI stock could double by 2030 (\$37–45b in new investment), contingent on reforms and derisking.

Net FDI inflows by component



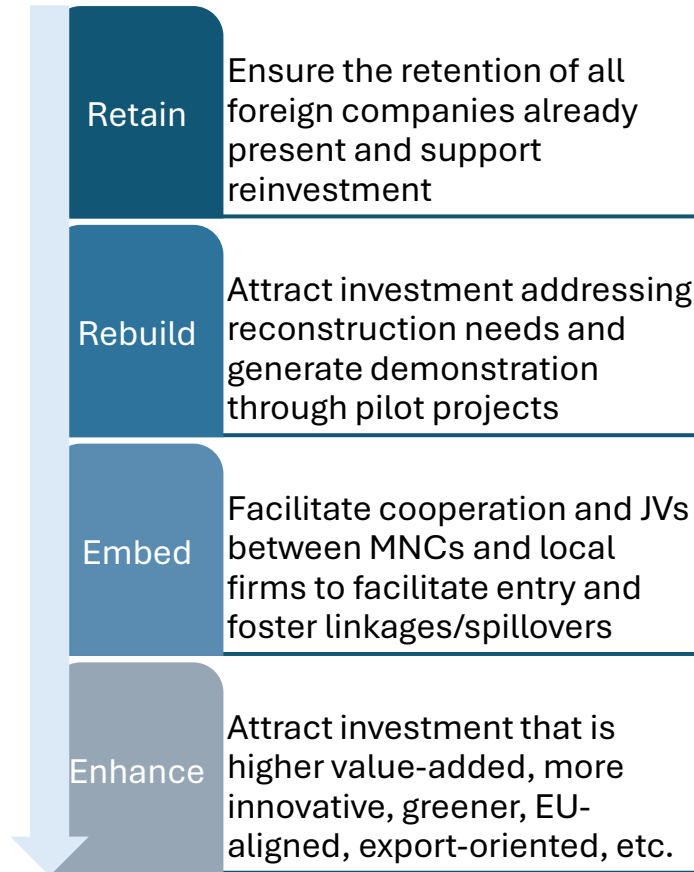
Source: WBG calculations based on IMF

FDI stock (% GDP)



4 Foreign direct investment quantity and quality could increase contingent on derisking and reforms(2/2)

Strategic objectives



Policy priorities

	Pillar 1: Derisking Mitigate the financial, legal, and operational risks constraining investment decisions	Pillar 2: Reforming Tackle longstanding, investment climate gaps hindering investment and business dynamism	Pillar 3: Catalyzing Attract, retain and expand investment through proactive promotion, facilitation, and local supplier development
Short-term (0–2 years)	<ul style="list-style-type: none"> Financial instruments (e.g. insurance), blended finance Investor legal protection and dispute resolution mechanisms Information on risks and business continuity Gradual relaxing of capital controls as conditions allow 	<ul style="list-style-type: none"> Regulatory simplification/digitalization Transparent EU-aligned investment screening SOE governance reform and privatizations Judiciary and anti-corruption reforms 	<ul style="list-style-type: none"> Targeted investment promotion and outreach Aftercare and grievance mechanisms for investors Optimize investment incentives
Medium-term (2-5 years)	<ul style="list-style-type: none"> National and international insurance / guarantee capacity Develop “fortified economic clusters” with resilient infrastructure 	<ul style="list-style-type: none"> EU-alignment of technical, sanitary, and ESG standards PPP and PIM frameworks Competition policy and sectoral FDI restrictions 	<ul style="list-style-type: none"> Supplier development and FDI linkages programs. Workforce readiness and TVET reform Innovation ecosystems and R&D partnerships EU-aligned ESG frameworks and green finance tools

References: Draft FDI Strategy