

CASE STUDY

Ukraine: Mobilizing International Private Financing in a Challenging Political Environment

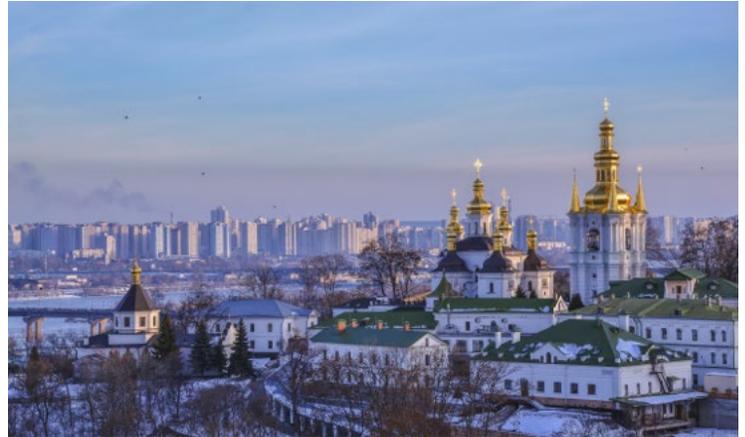
OVERVIEW

The creative structuring of an IBRD US\$750 million Policy-Based Guarantee helped Ukraine secure the US\$1 billion international financing need to fill its fiscal gap.

The World Bank Treasury structured the transaction to meet client's urgent financing needs during an impending external political conflict and upcoming elections. Structuring the financing package using guarantees in two tranches helped mobilize a larger volume of financing under urgent conditions.

Background

Ukraine undertook far-reaching reforms in the face of unprecedented shocks in 2014-2015, which helped stabilize the economy and the financial sector. This led to an average 2.4 percent growth in the following two years. However, recovery had been weak, with public debt at 71.9 percent in 2017 and the major fiscal financing needs looming for the 2019-2020 period. The frail recovery coupled with the increasing political complexity - the conflict in eastern Ukraine and elections scheduled in Spring 2019 – put Ukraine in a very difficult place for raising the financing it needed. In close coordination with the IMF, EU, US Treasury, USAID, World Bank and other bilateral partners, Ukraine has worked on restructuring monetary and fiscal policies and obtained a US\$750 million World Bank policy based guarantee (PBG) in November 2018 to support its financing needs.



Panoramic view of Kiev Pechersk Lavra Monastery in winter Photo credit Istock

Financing Objectives

- Mobilize US\$1 billion international financing using the US\$750 million PBG to deliver the financing needs in 2019-20 and thus maintain macroeconomic stability in Ukraine
- Raise the necessary external financing on affordable terms
- Design and implement the financing against a compressed timetable in the month of December-holiday season

Financing Solution

Due to the urgency of the financing needs and the year-end schedule leaving limited number of days to complete the transaction, the Ukraine/World Bank team decided to structure the financing in two tranches:

Tranche 1: US\$400 million with the guaranteed notional coverage of US\$375 million to be executed in December 2018.

Tranche 2: US\$600 million with the guaranteed notional coverage of US\$375 million to be executed in February 2019.

World Bank Treasury's Role

- Structured the transaction with the government; specifically, the Treasury team brought in potential bank lenders and helped them navigate the political uncertainty around the transaction.
- Negotiated terms with the banks for lowering financing costs
- Documented the transaction in a way that aligned with World Bank practices
- Stretched the guarantee amount to mobilize a larger volume of financing by structuring the financing in tranches to accommodate the difficult market setting.
- Brought in institutional investors for the second tranche to ensure raising the full volume needed by the client.

Outcome

On December 27, 2018, Ukraine secured US\$400 million financing from Deutsche Bank with the guaranteed notional coverage of US\$375 million from the World Bank. This was the fastest transaction ever closed by both the World Bank and Deutsche Bank. In February 2019, Ukraine secured another round of external financing, US\$600 from PIMCO and Deutsche Bank, which was structured alongside a US\$375 million guarantee from the World Bank. Through the support of the PBG, Ukraine closed the US\$1 billion financing gap to support the refinancing of liabilities due in 2019-2020 under urgent conditions despite the prospect of political unrest.

Closing Dates	December 2018, February 2019
Type of Guarantee	IBRD Policy Based Guarantee
Coverage	75% coverage over two tranches
Term	10 years
Structure	Amortizing

“Having the possibility to have the guaranteed transaction which actually removed the part of uncertainty for investors was really very important and very timely for us to finance the budget fully.”

Yuriy Butsa, Ukraine's government commissioner for public debt management

Other examples of Policy Based Guarantees Treasury team helped structure

By supporting the issuance of policy-based guarantees and advising clients on loans, the World Bank can help member countries become more resilient to economic shocks. An €80 million policy-based guarantee (PBG) from the World Bank helped [Montenegro](#) mobilize €250 million from a syndicate of offshore banks. An €200 million World Bank Guarantee alleviated funding pressure and debt roll-over risk in [Albania](#) in a volatile global financial market setting, a policy-based guarantee helped [Serbia](#) raise €293 million from a global lender, and strengthen Serbia's debt portfolio by reducing refinancing risks. The IBRD's Triple-A credit rating, market presence, and convening power enable Treasury's Banking team to develop innovative new products that help clients to maximize financing and mitigate various kinds of macro-financial risk.

Information About World Bank Credit Enhancement Products

A World Bank guarantee is seen by investors as a stabilizing factor in transactions with sovereign governments.

Policy-based Guarantees are applied in the context of development policy operations where the World Bank supports a member country with their program of policy and institutional actions that promote growth and sustainable poverty reduction.

Project-based Bank guarantees support projects with defined development objectives, activities, and results in accordance with OP 10.00, Investment Project Financing. Project based guarantees may be (i) loan guarantees and cover loan-related debt service defaults caused by government failure to meet specific payment and/or performance obligations; or (ii) payment guarantees and cover defaults on non-loan related government payment obligations, to private entities and foreign public entities.

The range of the guarantees offered by the World Bank Group can be found in the [guarantee products matrix](#)