

LOCAL BORROWING AND GUARANTEES DURING THE WAR: AN ANALYSIS OF KEY TRENDS

2021–2026

Yulia Markuts
Sofiiia Tiutiushkina
Ivan Demishev

The local borrowing market is recovering but has not yet reached pre-war levels

01

After a sharp decline in 2022, the number of new loans grew each year, but in 2025 it was still lower than in 2021. At the same time, the total volume of financing fell by more than 2.5 times compared to 2024 due to the transition to new rules for managing public investments and, likely, the partial replacement of loans with grants.

The public investment management (PIM) reform temporarily complicated the process of securing loans but did not halt the market

02

A sharp increase in borrowing in January–April 2026 indicates that some municipalities have already adapted to the new requirements for preparing and approving investment projects. At the same time, the market has not yet reached its full potential – it is important that not only experienced borrowers but also a wider range of municipalities can operate under the new rules.

Local lending remains a tool for large urban municipalities, not all municipalities

03

In 2025, most new agreements were signed by urban municipalities with prior borrowing experience. Rural and settlement municipalities gained access to this instrument in 2024 but have used it only in isolated cases. The main constraints are not so much difficulty accessing the market or exhausting debt limits, but primarily the political will to use borrowing instruments, as well as the capacity to prepare projects and manage debt.

State-owned banks provide quick access to credit, while international financial institutions (IFIs) offer long-term and cheaper financing for large projects

04

EBRD and EIB hold the bulk of municipalities' previously accumulated debt, while new direct loans are mostly raised from three state-owned banks — Ukrgasbank, Oschadbank, and Ukreximbank. IFI funds increasingly reach municipalities through Ukrainian banks, so a formally domestic loan may in fact have an international origin.

Loans in euros are cheaper but carry currency risks, while hryvnia loans are faster but more expensive

05

Hryvnia-denominated loans are easier to secure and carry no currency risk, but in 2025 their cost mostly stood at 16–18%. In early 2026, some municipalities began turning again to cheaper euro-denominated loans for large investments. Pegging rates to UIRD or EURIBOR with upper rate caps reduces interest rate risk but does not eliminate exchange rate risk.

The main fiscal risk is the concentration of debt and guaranteed obligations of municipal utilities

06

As of April 2026, guaranteed debt accounted for 55.8% of the total debt portfolio, and over 40% of the debt was concentrated in the Dnipropetrovsk and Lviv regions. Therefore, it is important to monitor not only the volume of debt but also the financial condition of municipal utilities, the quality of investments, and the ability of local budgets to cover currency and operational risks.

Municipalities have started receiving funds under the Ukraine Investment Framework (UIF), but actual disbursements remain limited so far

07

The approved municipal portfolio under UIF stands at 796 million euros, or 17% of the total public sector portfolio of 4.8 billion euros. As of July 2026, municipalities had actually received 30.2 million euros - about 4% of the approved amount. Therefore, the main task is to accelerate the transition from approved projects to signed contracts and the actual disbursement of funds.

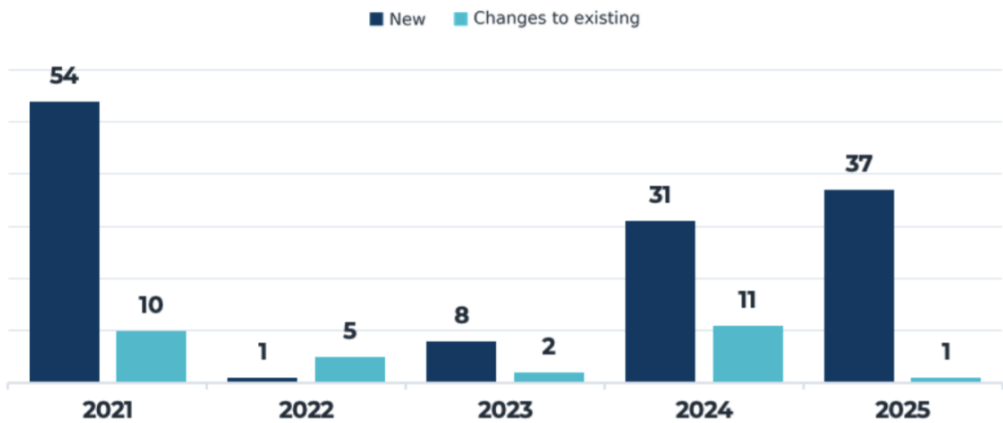
HOW DO MUNICIPALITIES SECURE LOANS AMID A WAR?

TRENDS AND STRUCTURE OF LOCAL BORROWING IN 2021–2026

Total number of local loans and guarantees

Local loans

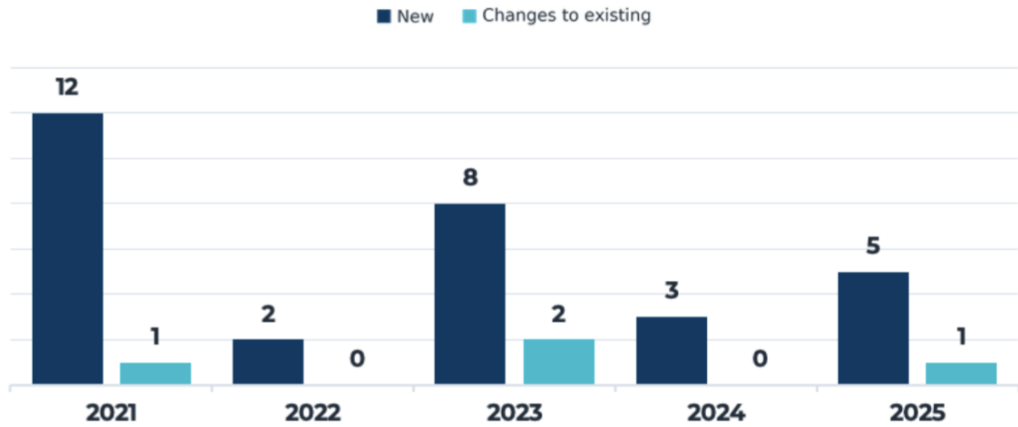
Number of agreements, 2021–2025



After a sharp decline in 2022, the number of new local loans is recovering: in 2025, 37 agreements were concluded — **a 19% increase over 2024**. State-owned banks were primarily responsible for this growth. At the same time, this is **31% fewer than in 2021**, when 54 agreements were concluded.

Local guarantees

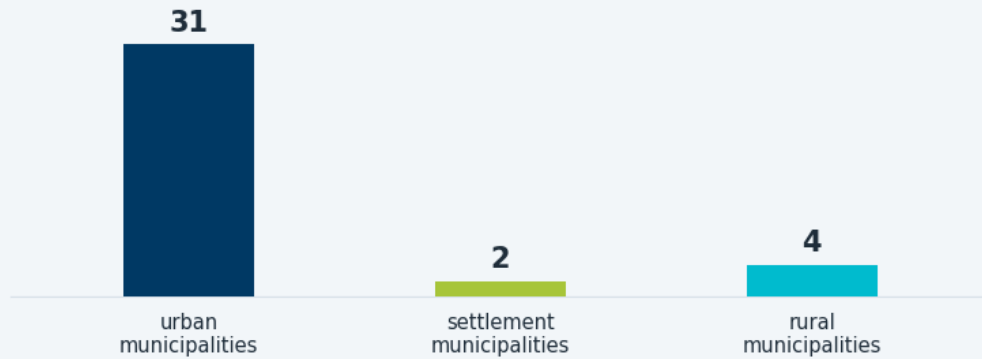
Number of agreements, 2021–2025



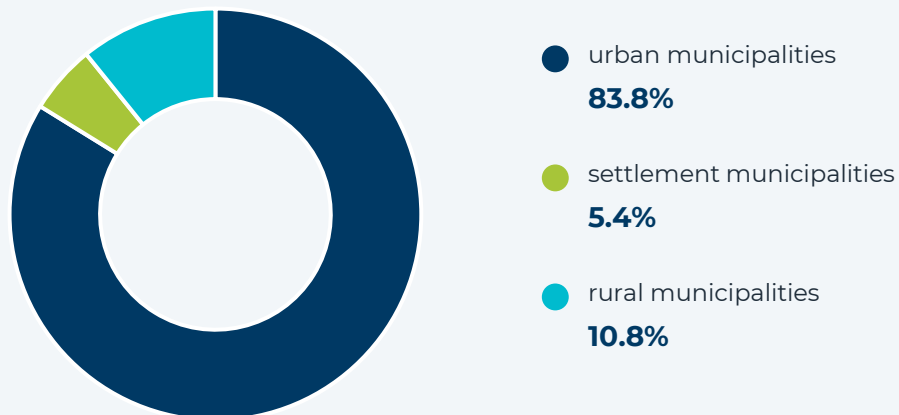
The number of new local guarantees **has fluctuated unevenly**: in 2025, there were only 5, compared to 12 in 2021. This may be due to the fact that guarantees are primarily associated with a small number of large infrastructure projects.

Source: here and after — data from the Ministry of Finance of Ukraine; calculations by the KSE Institute

Number of loans by type



Share of total number of transactions



Urban municipalities remain leaders, having signed 31 agreements (84% of the total in 2025)

Urban municipalities that have repeatedly taken out loans:

- The Kryvyi Rih and Dnipro municipalities each signed 4 agreements,
- Lviv municipality – 3 agreements,
- The Samarivska and Kamyanska municipalities — two agreements each.

Rural and settlement municipalities are still adopting the local borrowing instrument extremely slowly, despite gaining access to it in 2024

Throughout 2025, only 4 rural municipalities and 2 settlement municipalities made use of this financial instrument.

Main areas of borrowing:

- rural municipalities — infrastructure projects (water supply, wastewater disposal, etc.),
- settlement municipalities — renovation of educational institutions.

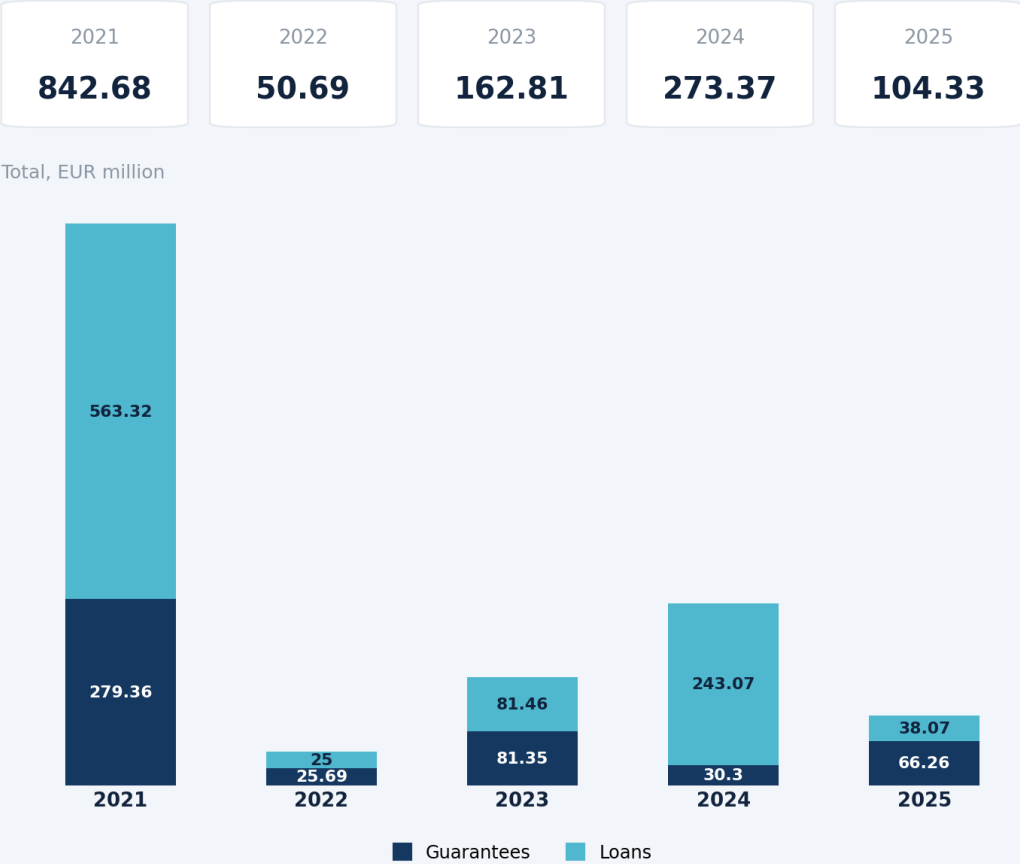
Reduction in the total volume of local borrowing and guarantees by 2025

In 2025, the total amount of funds raised through local borrowing **decreased by more than 2.5 times** compared to 2024.

Among the factors contributing to this were:

- municipalities partially **replaced loans** with direct international grants for reconstruction
- amendments to the Budget Code (January 2025) linked investment projects to **medium-term planning**
- The Ministry of Finance tightened the requirements** for the preparation and approval of projects, which led to revisions and delays
- due to the new rules and uncertainty, municipalities might **take a more cautious approach to borrowing**

Volume of local loans and guarantees, EUR million



Number of Loans and Guarantees by Type

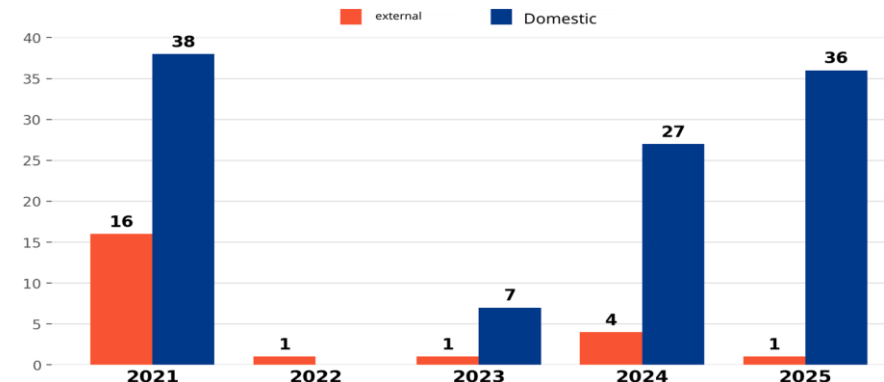
The domestic direct loan market is growing, while external borrowing has fallen to a minimum

- In 2025, municipalities raised **37 direct loans**.
- Of these, only **one** was direct external borrowing.
- Domestic lenders have become the main source of funding for capital expenditures, as they can provide funds more quickly and respond more flexibly to war-related risks.

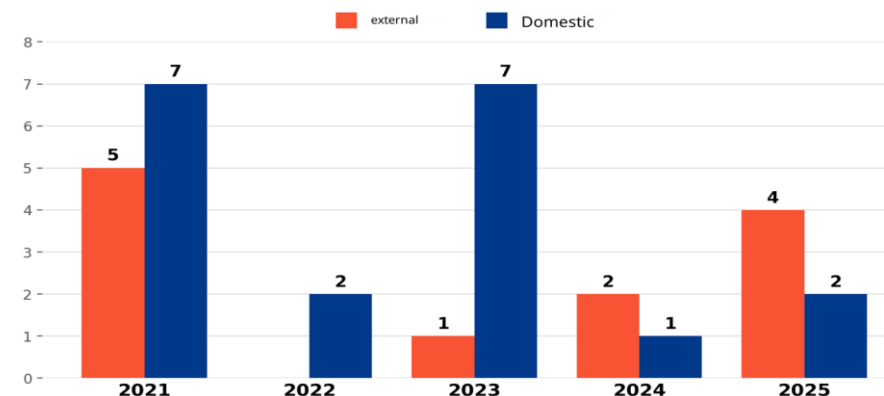
In contrast, the role of external financing is growing in the local guarantees market

- The number of **external guarantees has increased from 2 to 4** — large-scale infrastructure reconstruction projects require long-term and relatively inexpensive financing.
- A portion of the funds from international financial institutions (IFIs) is channeled through **Ukrainian banks**. Legally, such loans are considered domestic, even though the source of the funds is international.
- The increase in external guarantees reflects the specific nature of large-scale projects and available financial instruments rather than a general willingness on the part of donors to provide direct loans to municipalities.

Local loans

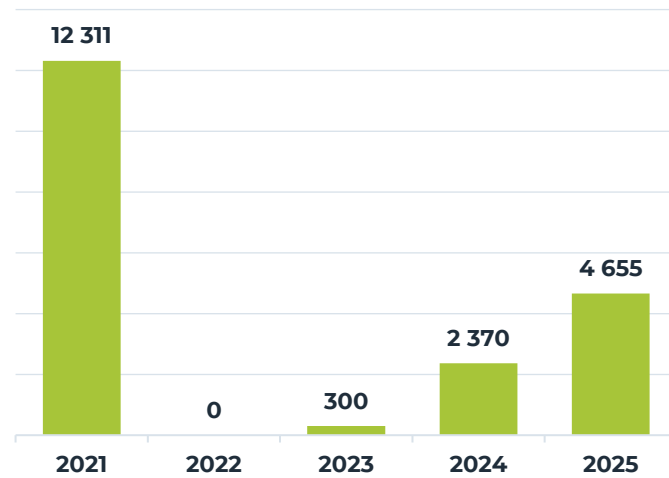


Local guarantees



Volume of local borrowing by currency

Local borrowing, in millions of UAH



IN 2025

AVERAGE LOAN AMOUNT

202.41 million ₴ 2.54 million €

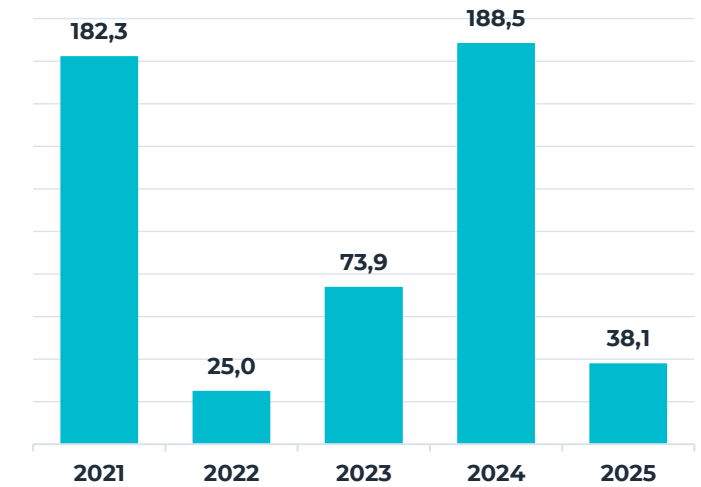
MINIMUM VALUE

6.00 million ₴ 0.50 million €

MAXIMUM VALUE

668.03 million ₴ 10.00 million €

Local borrowing, in millions of EUR



Local borrowing is primarily denominated in hryvnia and euros.

In 2025, the volume of hryvnia-denominated loans increased to 4.66 billion UAH, while foreign currency loans decreased to 38 million euros.

This can be explained by two factors:

- › direct long-term loans in euros from international institutions became less accessible, as donors likely became more cautious and increasingly financed municipalities indirectly — through Ukrainian banks;
- › municipalities more often opted for hryvnia-denominated loans to avoid creating currency risk for local budgets

Volume of local guarantees by currency

Average guarantee amount

12.95 million €

Minimum value

3.73 million €

Maximum value

25.00 million €

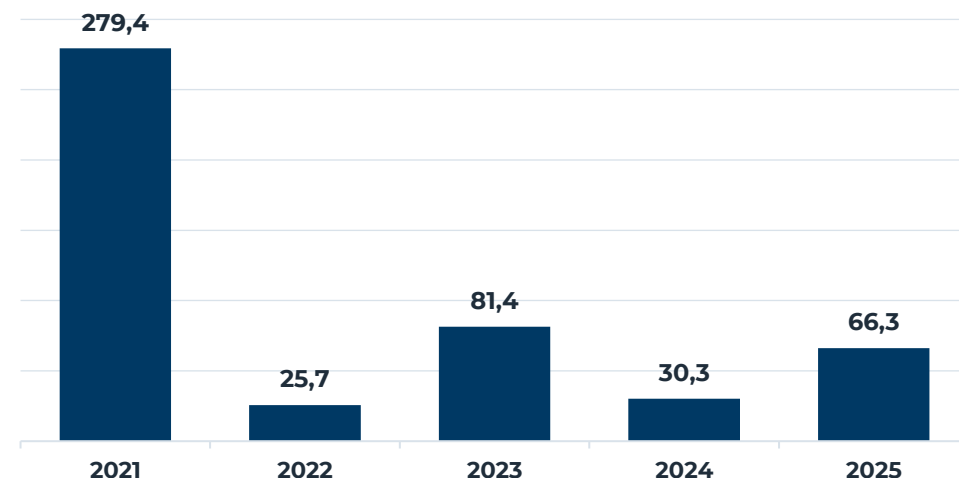
The guarantee market has doubled — to over 66 million euros

Guarantees are cheaper for borrowers due to lower rates, which contributed to their active use in 2025.

All guarantees were provided by urban municipalities. Settlement and rural municipalities more often took out direct loans rather than using the more complex guarantee mechanism.

Urban municipalities have greater fiscal capacity and municipal utilities that carry out large investment projects, so they can guarantee multi-million obligations.

Local guarantees, in millions of EUR

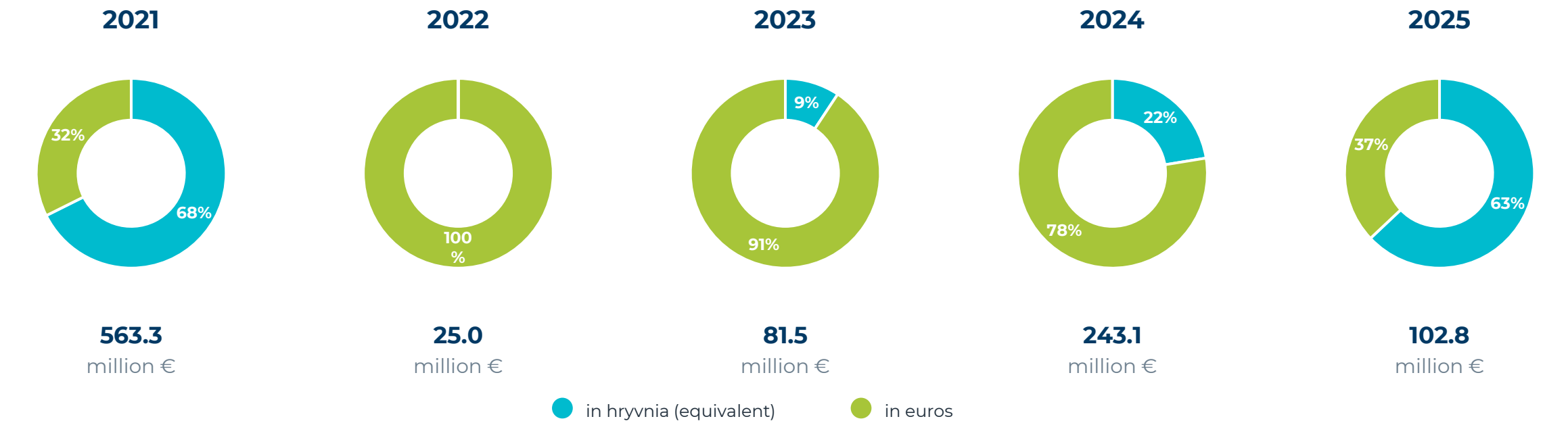


Intended use of local guarantees in 2025:

- modernization of the trolleybus system and refinancing of transportation debts (specifically in Cherkasy, Ternopil, and Kremenchuk)
- improving the energy efficiency of buildings (Dnipro)
- upgrading wastewater treatment facilities (Lviv)

Breakdown by Currency

Breakdown of new borrowings by currency, in millions of euros (equivalent)



Breakdown of Borrowings by Currency

With the start of the full-scale invasion, the structure of borrowings by currency changed significantly — borrowings in euros began to **predominate**.

In 2025, the trend reversed: the largest volume of new financing was raised in hryvnia — equivalent to **64.7 million euros**.

63%
in hryvnia
37%
in euros

Will these trends continue in 2026?

Adaptation to the PIM reform: growth in borrowing in early 2026

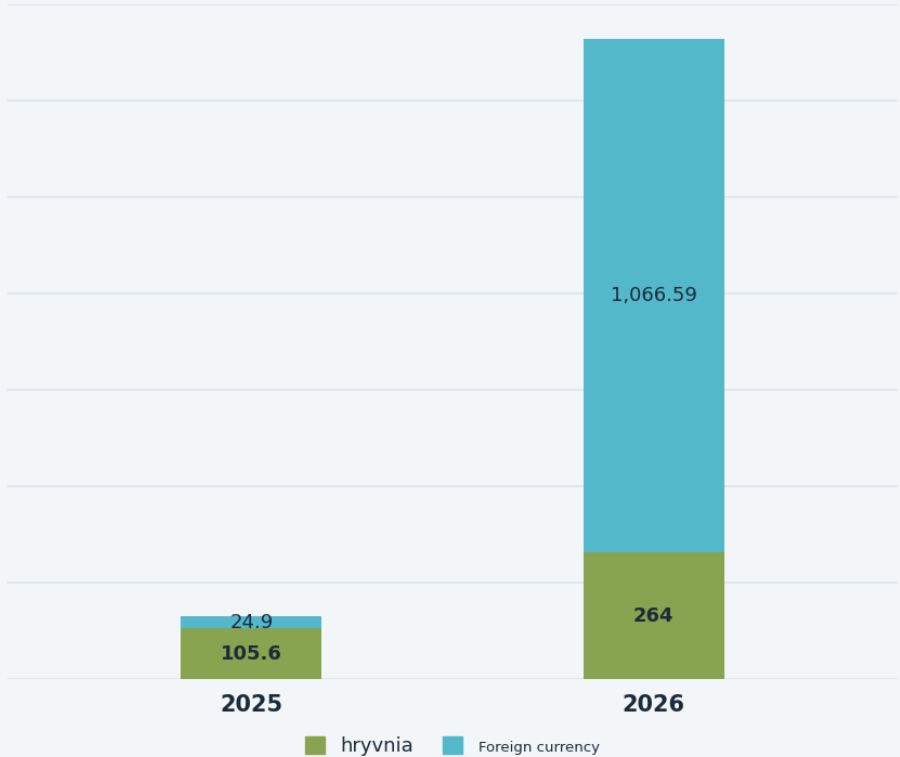
In January–April 2026, the volume of new borrowing increased compared to the same period in 2025:

Hryvnia loans million UAH, January–April	105.6	→	264.0
Foreign currency loans (equivalent) million UAH, January–April	24.9	→	1,066.6

This indicates that some urban municipalities have already adapted to the new PIM requirements and can obtain approval from the Ministry of Finance without significant delays.

At the same time, this growth does not mean that the new rules are equally accessible to all municipalities.

The volume of local borrowing for January–April, million UAH (UAH-denominated loans and foreign currency equivalent)

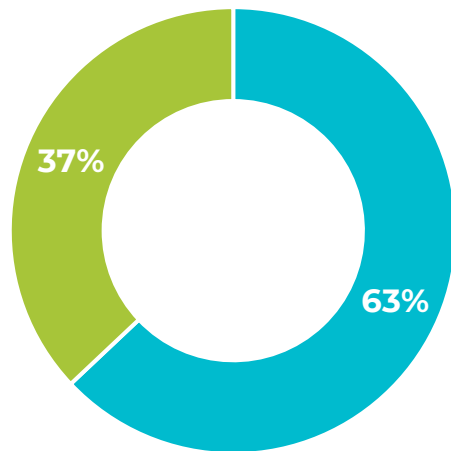


Breakdown of Borrowings by Currency in 2026

2025

Breakdown by year

63% in hryvnia



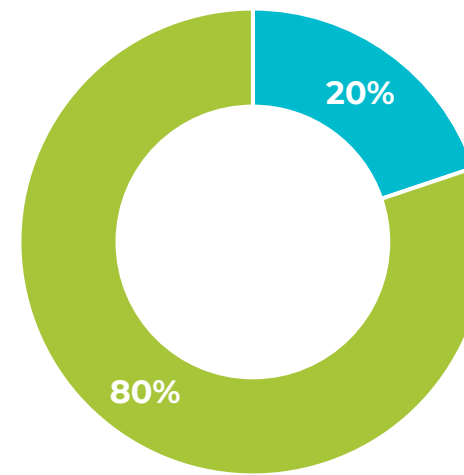
● in hryvnia
● in euros



2026

Breakdown for the first 4 months

Euro Advantage



● in hryvnia
● in euros

In 2026, the share of loans in euros rose again

- › In 2025, the borrowing structure changed: 63% of new financing was raised in hryvnia, and 37% in euros.
- › In January–April 2026, this trend did not continue: loans in euros once again accounted for the larger share of new borrowing.
- › Thus, the currency structure is returning to the pattern typical of 2022–2024.

HOW ARE THE TERMS, CREDITORS, AND RISKS OF LOCAL BORROWING CHANGING?

FINANCING TERMS AND THE STRUCTURE OF THE LOCAL BORROWING MARKET

In 2025, municipalities and lenders not only entered into new agreements but also revised the terms of existing loans and guarantees.

The reasons for these changes vary:

01

lower interest rates, adjustments to margins and grace periods to reduce the cost of debt service

02

a shift to variable rates linked to UIRD or EURIBOR, often with a rate cap

03

Administrative changes (updates to addresses or project implementation parameters), demonstrating flexibility in the execution of investment projects

04

Increase in the loan amount to cover additional costs or expand the project

In general, municipal lending terms are increasingly tied to market indicators, but at the same time include provisions to limit the risk of rising interest rates.

Cost of borrowing and currency trends

16–18%

Interest rates on hryvnia loans in 2025

>20%

Interest rates on hryvnia loans in 2024

Hryvnia loans remained expensive: in 2024, rates often exceeded 20% per annum, but in 2025 they began to decline along with market rates.

Loans in euros are typically cheaper and have more stable terms. They are primarily used for large infrastructure projects, although they pose a currency risk.

Limiting interest rate risk

22–25%

upper limit on rates pegged to the UIRD

≈ 8%

upper limit on rates linked to EURIBOR

In 2025, contracts often set **an upper limit for the variable rate:** 22–25% for rates linked to UIRD, and about 8% for those linked to EURIBOR.

This allows for the use of variable rates while simultaneously ensuring that local budgets are protected from uncontrolled increases in the debt burden under unstable conditions.

Local guarantees and a margin

up to 2%

margin in individual transactions backed by local guarantees

For loans backed by local guarantees **the margin in individual transactions was reduced to 2%**, making such financing cheaper than direct loans.

Guarantees are applied on a case-by-case basis — primarily for large, targeted investment projects.

01

2021 – Most rates were pegged to the NBU's discount rate

Most transactions were based on the base rate set by the National Bank of Ukraine.

02

In 2023–2024, rates are more frequently pegged to the 3M UIRD* or 12M UIRD* for hryvnia-denominated loans and the 6M EURIBOR for foreign currency loans

This indicates a gradual integration of the rate-setting mechanism with market indicators and international financial benchmarks. This allows for a more flexible response to changes in the cost of funds in the financial market and has the potential to reduce borrowing costs.

03

In 2025, variable rates became the dominant model

New contracts predominantly provide for variable rates pegged to the UIRD or EURIBOR, with adjustments every 3 or 6 months. This signifies a shift from a direct peg to the NBU's discount rate to market indicators.

* UIRD 3M (Ukrainian Index of Retail Deposit Rates, 3-month) is a Ukrainian index of interest rates on 3-month retail deposits. It reflects the average interest rate at which banks in Ukraine attract funds from the public for this period.

* EURIBOR 6M (Euro Interbank Offered Rate, 6-month) is the rate at which European banks lend funds to one another in euros for a 6-month term. It is a key indicator in the eurozone that influences the cost of loans, mortgages, and other financial instruments in Europe.

Terms of local guarantees are being shortened

After peaking in 2022 **the average maturity of local guarantees has been gradually decreasing.**

At the same time, the average maturity of direct loans has increased slightly following fluctuations in previous years.

The Growing Role of Uncertainty

The shortening of guarantee terms may reflect a reduced willingness on the part of lenders to engage in long-term financial relationships, as well as a shift by municipalities toward projects with shorter implementation horizons aimed at quickly financing critical needs.

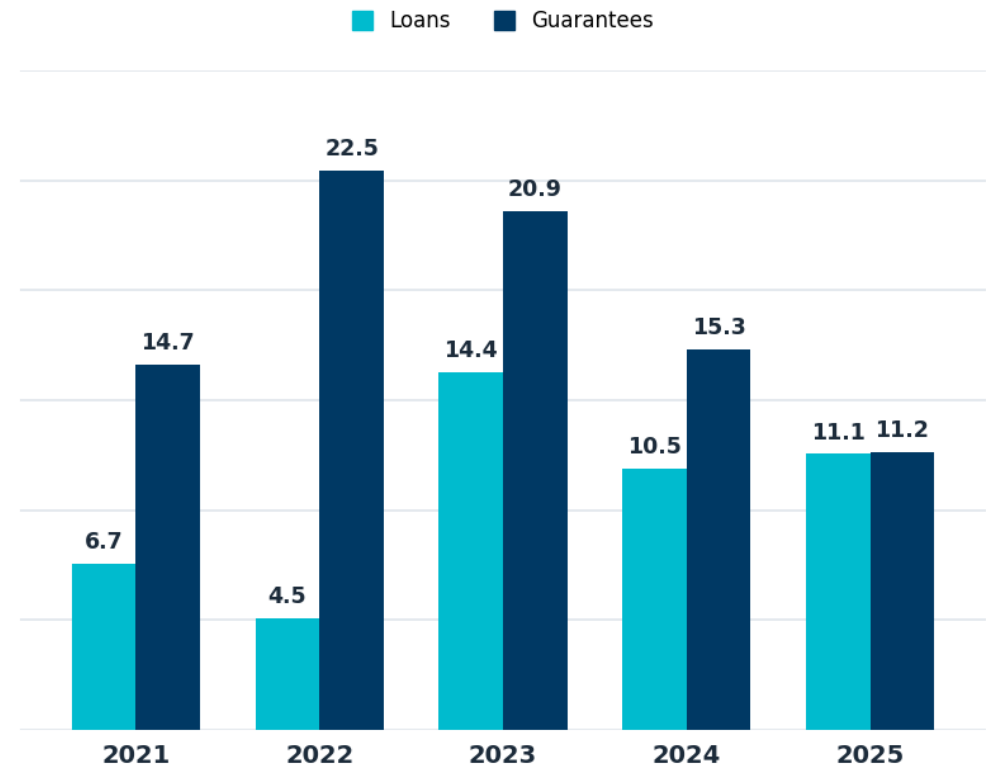
3.19

years – average grace period for loans

2.6

years – average grace period for guarantees

Average term, years



Duration of approval by the Ministry of Finance

Following delays in 2024, the average approval time in 2025 decreased to 35.3 days for loans and 19.2 days for guarantees.

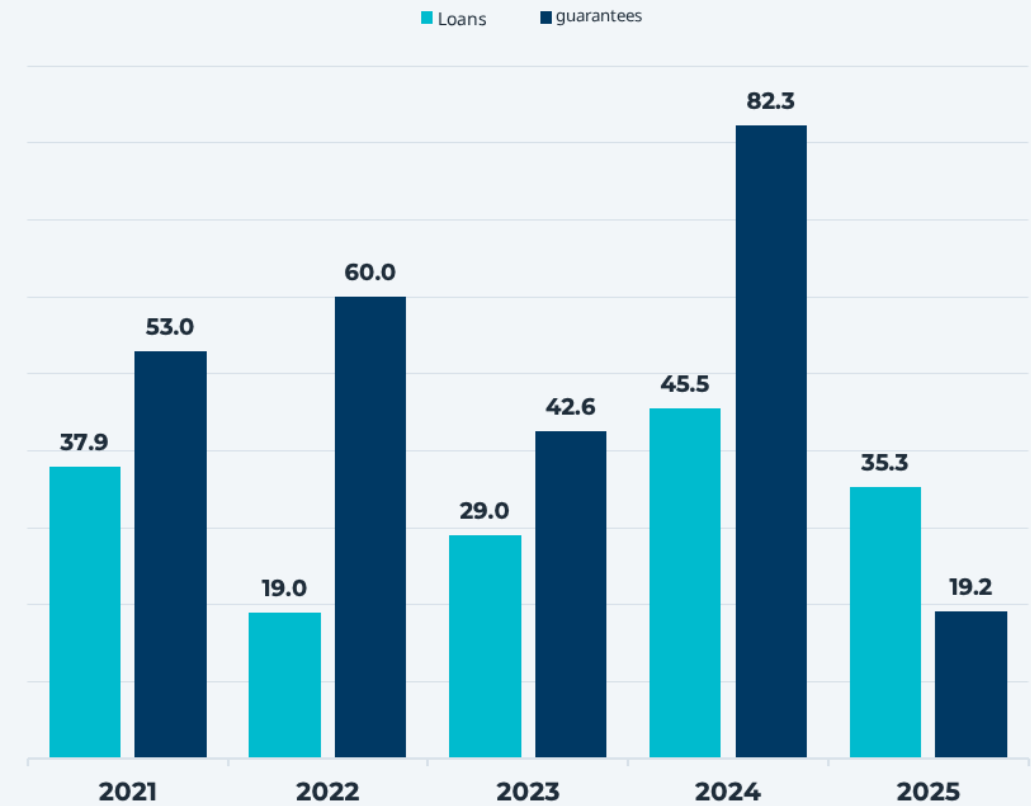
At the same time, the Ministry of Finance scrutinized applications more closely for compliance with the new requirements. Incomplete or non-compliant documents were returned for revision, which could drag the process out past the approval deadlines.

Short average timelines therefore mainly reflect quick approval of applications that were correctly prepared the first time.

35.3 days – average loan approval time, 2025

19.2 days – average approval time for guarantees, 2025

Average approval time, days



State-owned banks

Leaders in municipal financing.

In 2025, Oschadbank, Ukreximbank, and Ukrgasbank joined the active lending market (the last one became the leader in terms of the number of new loans to urban municipalities).



International institutions

The key players remain the EBRD and the EIB.

NEFCO, which was active before the war, significantly scaled back its involvement after 2022.



Specifics of Fundraising

Local loans

This instrument is more diversified; funds are provided primarily directly through Ukrainian state-owned banks.

Local guarantees

These are more centralized in nature. They are provided mainly by international organizations (EBRD, EIB) for large-scale projects and require mandatory approval at the national level.

Breakdown of local borrowing creditors by number of loans provided in 2025



Breakdown of creditors of local guarantees by number of guarantees issued in 2025



2021

2022

2023

2024

2025

A diverse market:

commercial banks (including TASCOMBANK and Alfa-Bank) were actively operating in the market.

A sharp contraction of the market:

due to the outbreak of full-scale war, new municipal lending declined significantly, and commercial banks' activity decreased.

The start of recovery:

the market began to revive, and lending started to recover, primarily thanks to state-owned banks and the Ministry of Finance's program.

Expansion of the role of international institutions:

International institutions (EBRD, EIB) have become more active, and the state-owned SENS Bank (formerly Alfa-Bank) has "entered" the market.

State-owned banks dominate new direct lending

The absolute monopoly of the three state-owned banks has strengthened. At the same time, international lenders are increasingly opting for indirect financing — they provide funds to Ukrainian banks, which in turn lend to municipalities.

CURRENT STATUS AND STRUCTURE OF LOCAL DEBT



Breakdown by funding sources



- External debt
53.1% · 15.2 billion UAH
- Domestic debt
46.9% · 13.4 billion UAH

In the structure of debt obligations, **external debt predominates**, which indicates a predominance of foreign capital in the municipalities' overall debt portfolio.

Breakdown by debt type



- Guaranteed debt
55.8% · 15.9 billion UAH
- Local debt
44.2% · 12.6 billion UAH

By type of obligation **guaranteed debt predominates**. This means that most of the liabilities are related to loans taken out by municipal utilities, for which local councils have provided guarantees, rather than to direct loans taken out by municipalities.

Only 47 municipalities have local debt

- Only **9 municipalities** have used more than one-third of their debt limit (Kalush, Lutsk, Pishchanka, Mykolaiv, Mariupol, Sloviansk, Perechyn, Lviv, and Kremenchuk).
- 1,422 municipalities (**96.8%**) have no active loans, retaining their full debt limit.
- Another **9 municipalities** (mostly those near the front lines or temporarily occupied) have a **negative debt service capacity**. These municipalities had taken out loans prior to the full-scale invasion. Due to a drop in revenues, the debt calculation limit has decreased, while existing obligations remain.

Available debt limit: differences among types of municipalities

On average across all municipalities , the available limit is **\$4.31 million**, and the median is just **\$1.48 million**.

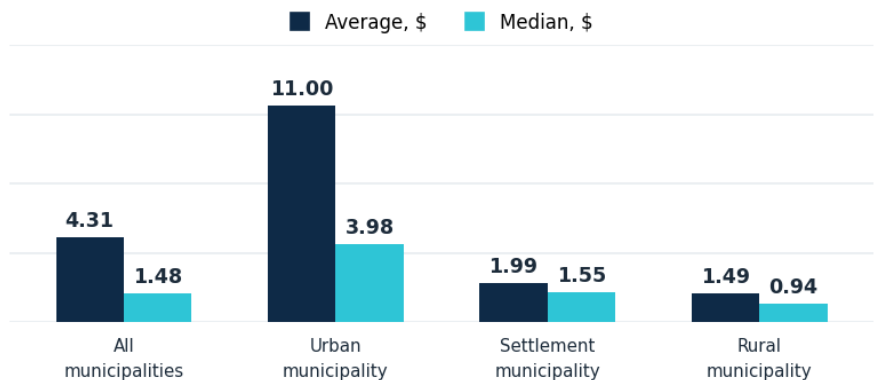
Urban municipalities, as expected, have **the highest limits** (mean: \$11 million, median: \$3.98 million).

In contrast, rural municipalities are constrained by the smallest financial base: their average figure is \$1.49 million, and the median is just \$937,000.

Municipal Borrowing



Estimated average debt limit across municipalities, \$ million



Breakdown of borrowings by council type

Type of municipality / council	Number entities	Total debt (million UAH)	Average debt per territorial community
Urban municipalities (including Kyiv)	46	28,053.05	609.85
Regional councils	1	269.49	269.49
Settlement municipalities	0	0.00	0.00
Rural municipalities	2	97.12	48.56
TOTAL	49	28,419.67	579.99

* as of April 30, 2026

Nearly 99% of all active local borrowing (over 28 billion UAH) is held by urban municipalities

The total debt of rural municipalities and settlement municipalities amounts to only about **97 million UAH**.

One reason is that, until 2024, the local borrowing instrument was available only to urban municipalities.

Why do rural and settlement municipalities rarely take out loans?

- 1

There is a shortage of specialists capable of preparing an investment project and navigating the approval process with the Ministry of Finance
- 2

Local budgets are smaller and less stable
- 3

The new financial instrument requires time to be implemented in practice

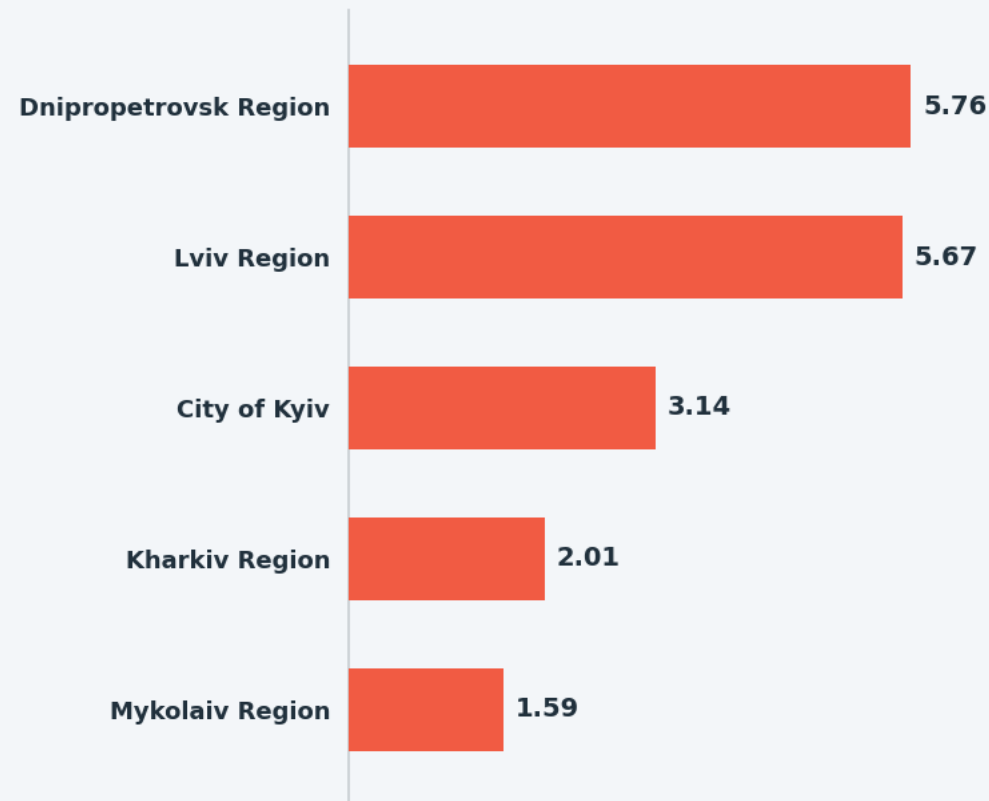
The largest debt is concentrated in the Dnipropetrovsk (about 5.8 billion UAH) and Lviv (about 5.7 billion UAH) regions.

- Dnipropetrovsk region funds **energy conservation, housing repairs, transportation infrastructure, and the construction of Administrative Service Centers**
- Lviv region is funding **thermal retrofitting** of public and government buildings.

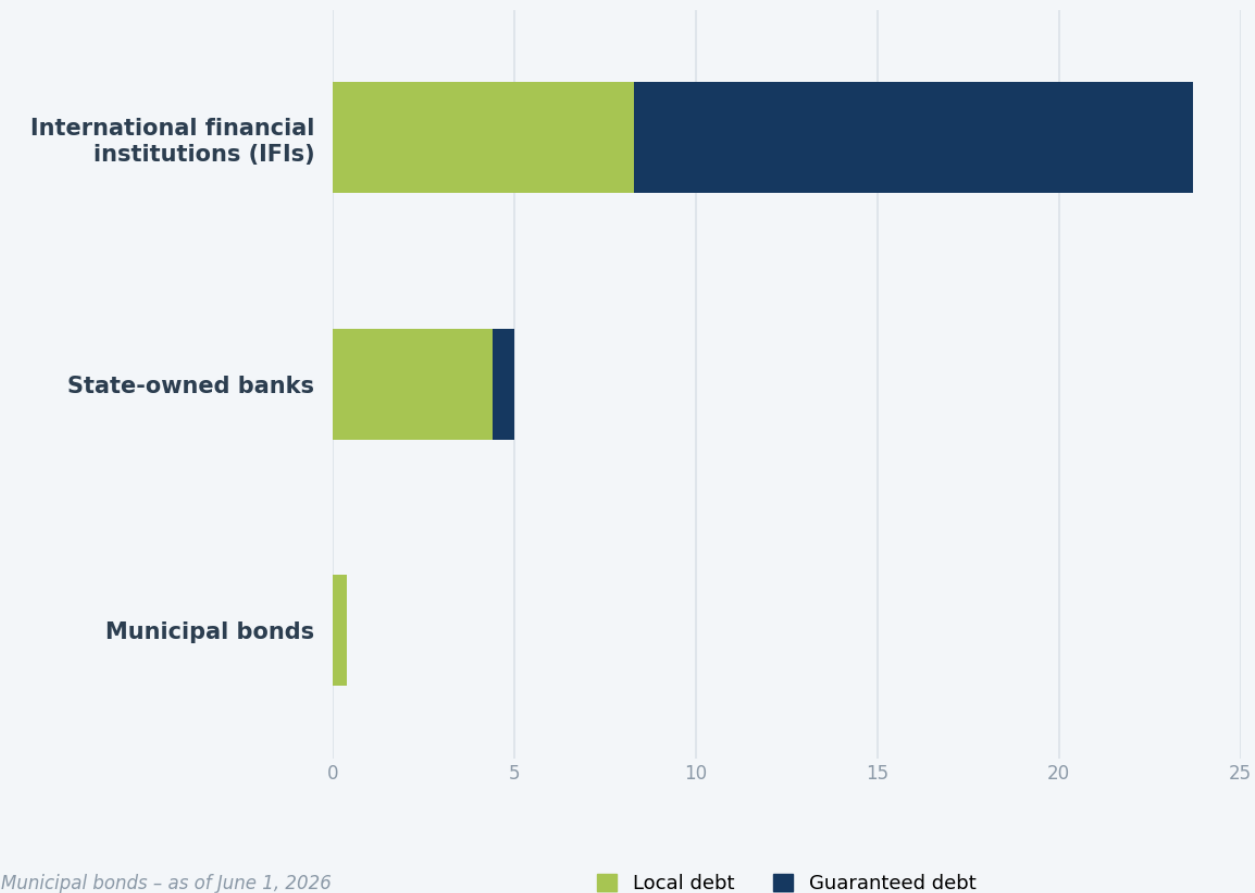
Next in terms of funding are the city of Kyiv (over 3.1 billion UAH), as well as Kharkiv (about 2.0 billion UAH) and Mykolaiv (about 1.6 billion UAH) regions

- The loans are primarily intended for **financial support** of the day-to-day operations of local **municipal utilities and transportation enterprises**.

Top 5 regions by debt volume, in billions of UAH



Debt by creditor group, UAH billion



International financial institutions (IFIs) account for the bulk of the accumulated debt of municipalities.

Their financing is primarily raised under state or local guarantees for large infrastructure projects of municipal utilities.

Ukrainian state-owned banks and municipal bonds primarily constitute **the direct debt of the local councils themselves.**

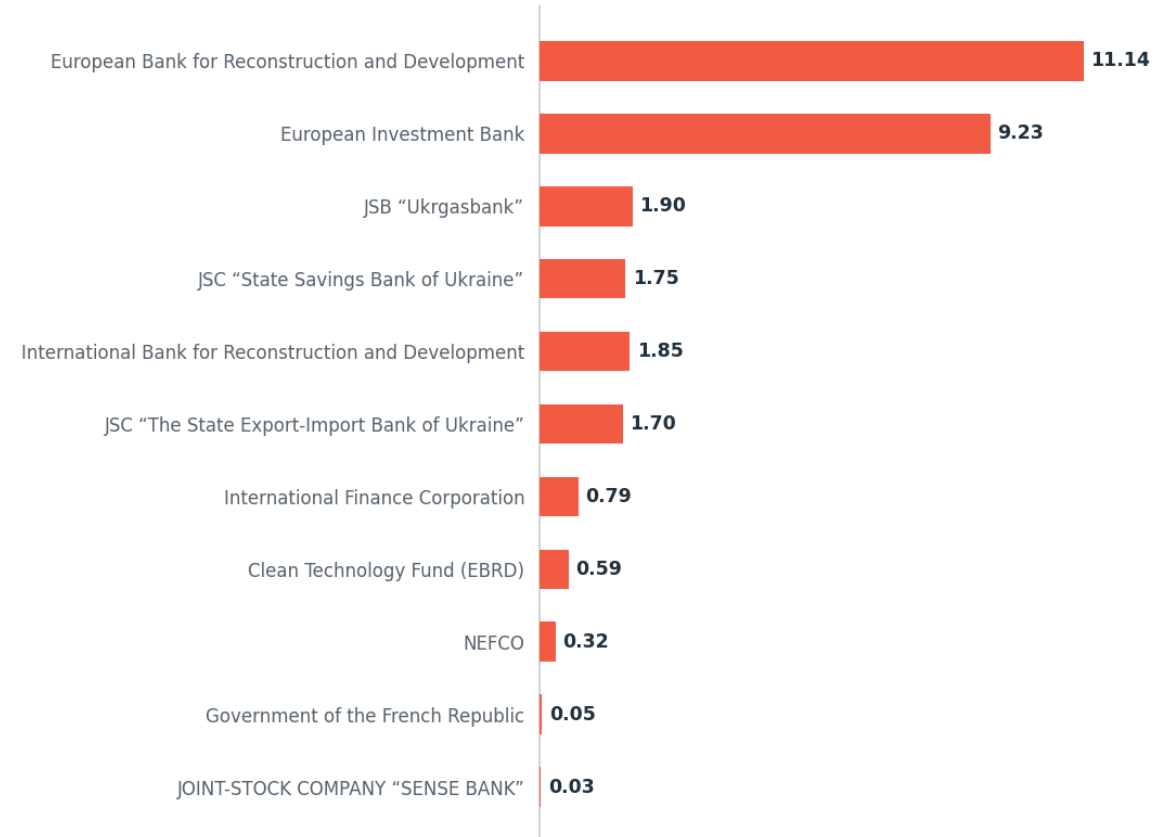
Total: UAH billion

International organizations (IFIs)	23.60
State-owned banks	4.95
Municipal bonds	0.40

The EBRD and the EIB account for the largest share of municipal debt

- In first place is **the European Bank for Reconstruction and Development**, with debt exceeding **11 billion UAH**.
- Close behind is **the European Investment Bank** with a total of over **9 billion UAH**.
- By comparison, Ukrainian state-owned banks (UkrGasbank, Oschadbank, Ukreximbank) and the World Bank (IBRD) provided funding to municipalities in the range of **1.5–2 billion UAH each**.
- The share of other international funds (IFC or NEFCO) in the total debt portfolio is significantly smaller.

Debt by creditor, in billions of UAH



UKRAINE INVESTMENT FRAMEWORK: OPPORTUNITIES AND ACTUAL FUNDRAISING BY MUNICIPALITIES

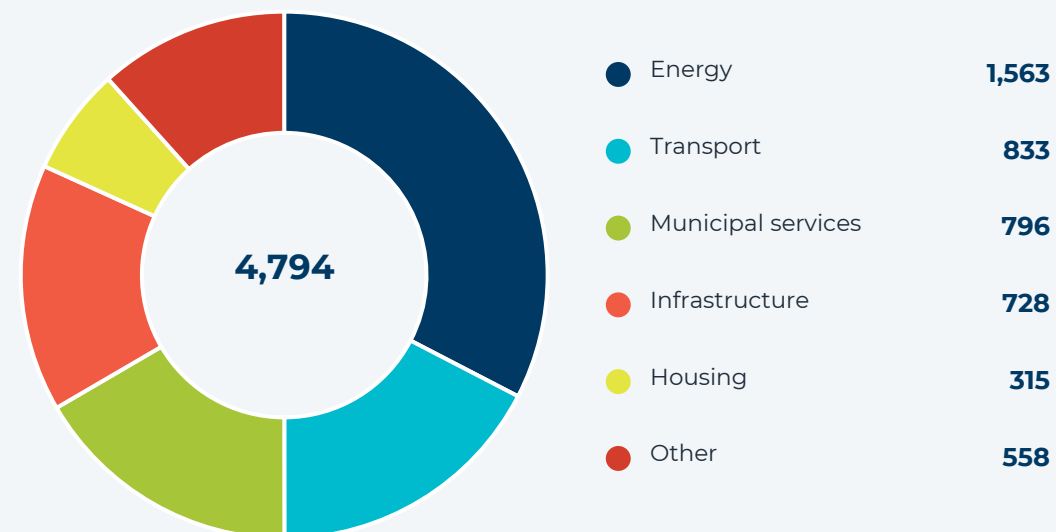
The Ukraine Investment Framework (UIF) is an EU investment mechanism under the Ukraine Facility. It combines loan guarantees, grants, and technical assistance (TA) to make long-term financing more accessible and affordable.

The mechanism's total budget is 9.5 billion euros for the private and public sectors.

As of June 2026, 796 million euros has been approved for municipal financing through the UIF

- The total approved portfolio of programs for the public sector amounts to **4.8 billion euros**.
- Programs in which municipalities or their municipal utilities act as direct borrowers account for **796 million euros, or 17% of this portfolio**.
- Municipalities are also beneficiaries of programs in the areas of transportation, infrastructure, and housing, where other entities act as borrowers.

Approved in the public sector, in millions of euros



Source: here and throughout this section—data from the European Commission; calculations by the KSE Institute

Direct support programs for municipalities are implemented by 5 IFIs

The agreed-upon municipal portfolio is being formed by **EIB, AFD, BGK, KfW, and NEFCO**. The EIB has the largest volume of guarantees, while AFD and BGK have the largest volumes of grant support.

The funds will be directed toward:

supporting the liquidity of municipal utilities

energy efficiency

upgrading urban transportation

modernizing water supply systems

Total funding for municipalities



Guarantees

71.5%

Grants

26.0%

Technical assistance

2.5%

Planned municipal loans under the UIF, in millions of euros



Grants account for over 25% of the approved funding, making loans more affordable for municipalities.

Another 2.5% is TA — technical assistance for engaging international consultants and analysts and preparing project and cost estimate documentation.

This addresses one of the main challenges facing municipalities — the lack of in-house expertise needed to properly prepare projects in accordance with EU standards.

Most programs focus on supporting essential public utilities: heating, water supply and sanitation, energy efficiency, etc.

IFIs	Program	Area	Guarantees, million euros	Blended financing, million euros	Total, million euros
	Ukraine Municipal Infrastructure Program	Energy, water supply and wastewater treatment, waste management	220,9	-	220,9
	Investment Grant (IG) for the Ukraine District Heating Project	Heat Supply, Building Energy Efficiency, and Renewable Energy Sources	-	30,9	30,9
	MISTO – Municipal Infrastructure for Sustainable Territories	Healthcare, Water Supply, Housing, Energy	192,0	84,4	276,4
	Support for Municipal Investments in Ukraine	Heating, water supply and sewerage, healthcare, transport	90,0	48,5	138,5
	EU NEFCO Green Recovery Program for Ukraine	Heating, water supply, building energy efficiency, and renewable energy sources	63,0	46,0	109,0
	Municipal Infrastructure Development (Chernivtsi)	Water Supply and Sewerage in Chernivtsi	-	20,3	20,3

As of July 2026, 565 million euros had been disbursed to the public sector through the UIF.

Of this amount, 30.2 million euros specifically €20.2 million in the form of guarantees.

In 2024–2025, funding was provided to **Kyiv, Lviv, Dnipro, and Cherkasy** — to support public utilities and modernize public transportation.

565

million euros were
disbursed
to the public sector

30.2

million – direct
support
to municipalities

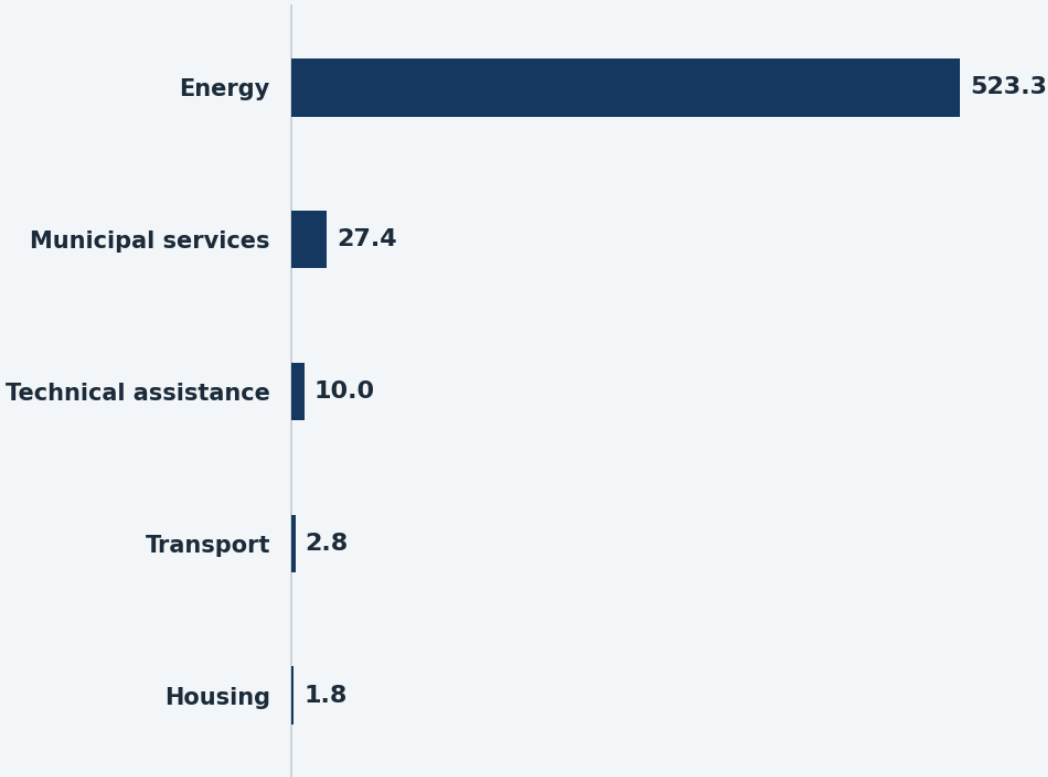
20.2

million euros, of which
– in the form of
guarantees

An uptick in contract signings with municipalities is expected starting in early 2027.

The planned projects cover urban municipalities of various sizes and from different regions. For some of them, funding is provided through financial intermediaries.

Funding provided to the public sector, million euros



PROSPECTS FOR LOCAL BORROWING: OPPORTUNITIES AND KEY CONSTRAINTS

WHAT MUNICIPALITIES NEED TO ATTRACT MORE FUNDING

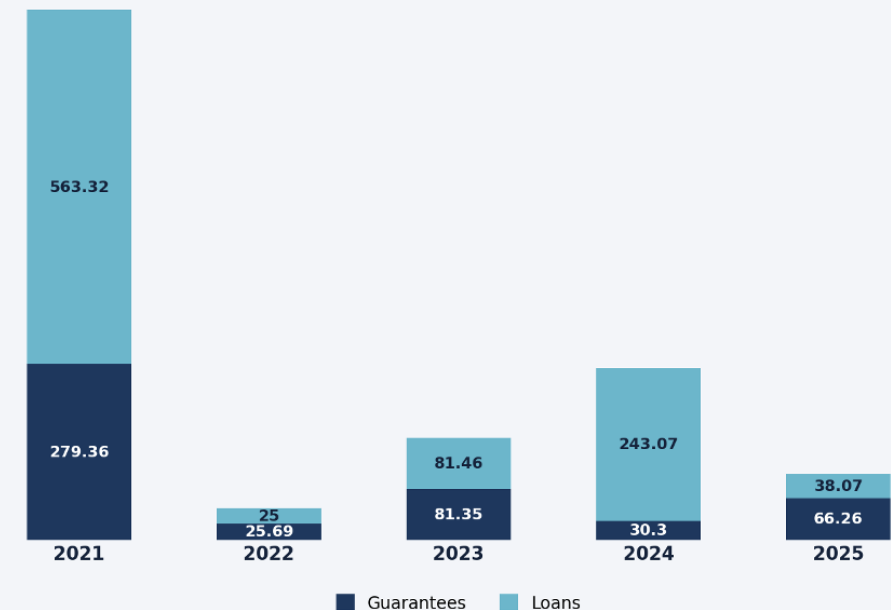
The volume of borrowing will grow, with the pace determined by the PIM reform

- The PIM transition period in 2025 temporarily held back the market—**stricter project quality control resulted in applications being returned for revision** and delays in approval.
- Data from early 2026 indicate **a gradual adjustment**: approval times are shortening, and the volume of new borrowing is increasing.
- Future trends will depend on **whether municipalities can meet the new requirements for project quality**.
- Without targeted support for project preparation, **PIM risks entrenching the gap** between a few experienced urban municipalities and the rest of the municipalities.
- Municipalities that invest in preparing projects to meet PIM requirements now will have **an advantage in accessing funding** later on.

Volume of local borrowing and guarantees, in millions of euros

2021	2022	2023	2024	2025	2026
842.68	50.69	162.81	273.37	104.33	?

Total, EUR million



Which terms and opportunities will become more relevant

Financing terms are becoming more transparent, and the available instruments are becoming more diverse

01

Rural municipalities and settlement municipalities that gained access to loans in 2024 are currently making limited use of them. **This represents the market's greatest untapped potential**

02

Rates pegged to the UIRD or EURIBOR with caps are becoming the standard for new agreements. They make **financing terms more transparent**, though they do not eliminate interest rate risk and currency risk

03

International financial institutions are increasingly providing **funds through Ukrainian banks**. This model is likely to continue

04

Loan terms and grace periods are being shortened compared to 2024—this may indicate a gradual end to the lenient attitude of creditors that characterized the early years of the full-scale war

05

The UIF is establishing a substantial financial reserve for municipalities for the coming years: with **796 million euros in the approved municipal portfolio**, most of the funds have yet to be allocated to contracts and disbursements. A significant portion of the grant (over 20%) makes these funds particularly advantageous, and technical assistance (TA) can strengthen municipalities' capacity to prepare high-quality projects

The challenge for municipalities is to combine available tools with high-quality project preparation and risk assessment.

The main constraint for most municipalities is not access to loans, but the willingness to use them

96.8%

96.8% of municipalities do not have active local borrowing.

01

Overcoming the Passivity of Small Municipalities

The available borrowing resources are currently distributed among a small circle of experienced borrowers, while the vast majority of municipalities have not even tried this tool.

02

Building capacity to prepare projects and obtain approval from the Ministry of Finance

Rural and small-settlement municipalities lack specialists to prepare projects, perform financial calculations, and navigate approval procedures.

03

Raising awareness of available debt-reduction tools (cap rates, guarantees)

These tools are already in use but remain little known outside the circle of experienced borrowers.

04

Utilizing UIF technical assistance (TA) to prepare projects and accelerate the transition from the approved portfolio to contracts

Of the approved portfolio of 796 million euros, only about 4% has actually been disbursed. Technical assistance (TA) can accelerate project preparation, contract signing, and the use of funds.

Research Objective

To show how the local borrowing market has changed: its volume, lenders, loan terms, and the range of municipalities that borrow. To assess the impact of the war, public investment management (PIM) reform, and legislative changes on municipalities' access to credit and their ability to implement investment projects.

Data Sources

the official website of the Ministry of Finance of Ukraine (data on approved local borrowing and guarantees), responses to official requests for public information regarding local debt and bonds, and KSE Institute analysis (data on the distribution of funding under Pillar 2)

What was studied?

loan type (domestic or external, direct or guaranteed), lender, amount, currency, interest rate, loan term and grace period, timing and speed of approval by the Ministry of Finance, and the distribution of debt by region and council type — urban councils, settlement councils, or rural councils.

Period:

- prior to the full-scale invasion, for comparison—2021;
- start of full-scale war—2022;
- market adaptation and recovery period—2023–2025 and January–April 2026

Analytical Objectives

- Analyze how the volumes, types, and structure of local loans and guarantees have changed.
- Compare financing terms: interest rates, loan currencies, maturities, and grace periods.
- determine the role of state-owned banks, the EBRD, the EIB, and other international financial institutions (IFIs) in municipalities' new and accumulated debt.
- Assess how the war, legislative changes, and public investment management (PIM) reform have affected municipalities' ability to secure loans.
- Identify regional concentrations of debt, the prevalence of borrowing among different types of municipalities, and the actual mobilization of funds under the Ukraine Investment Framework (Pillar 2).