Access to Finance for Defence Industry Enterprises: Barriers and Solutions

BRIEF OVERVIEW

The Ukrainian defence industry has become one of the key pillars of the country's resilience and the most dynamic sector of the wartime economy. At the same time, the ability of enterprises to rapidly scale up production depends not only on technology, personnel, or government contracts, but also on access to financing, banking services, foreign exchange regulation, guarantees, and risk mitigation instruments.

On 19 May 2026, the We Build Ukraine think tank, in collaboration with FEU Defence, held a closed-door roundtable entitled "Access to Finance for Defence Industry Enterprises: Barriers and Solutions". The event focused on financial, regulatory and compliance constraints affecting the ability of defence industry enterprises to attract financing, conduct financial transactions and scale up production under wartime conditions.

PARTICIPANTS

Representatives of the following institutions and organisations took part in the discussion:

- the Verkhovna Rada of Ukraine;
- the National Bank of Ukraine;
- the Office of the President of Ukraine;
- the Ministry of Defense of Ukraine;
- JSC Ukreximbank;
- public and private defense industry enterprises;
- industry associations and the expert community.

KEY CHALLENGES

1. Limited access to credit resources

The current preferential lending mechanism, introduced by Cabinet of Ministers of Ukraine Resolution No. 1288, has produced tangible results: approximately 130 loans have been granted, while around 80 more are currently being processed by banks. However, the scale of the mechanism does not match the sector's actual needs. For many manufacturers, the current limits on financing working capital needs (UAH 100 million) and investment purposes (UAH 500 million) are insufficient to fulfil government contracts and scale up production.

2. Securing credit obligations

Equipment, inventories, components and work in progress are not always acceptable to banks as collateral due to valuation complexity, limited liquidity and the risk of physical destruction as a result of hostilities. In these circumstances, property rights under government contracts with the Ministry of Defence and the Defence Procurement Agency could serve as a more suitable form of security. At the same time, the practical use of such collateral requires further refinement of approaches to valuing property rights under contracts and taking them into account in credit risk calculations, particularly within the regulatory framework established by NBU Resolution No. 351. The problem is further exacerbated by the short contracting horizon: government contracts are predominantly concluded for one year, which limits the predictability of manufacturers' revenues and, consequently, banks' ability to provide larger amounts of credit secured by property rights under such contracts.

3. Settlement deadlines for export and import transactions

The current settlement deadlines do not always reflect the actual operating conditions faced by defence industry enterprises under import and export contracts. The import of equipment and components often requires longer lead times than those provided for under the standard regime. Similar constraints may also arise under export contracts due to lengthy production, logistics and settlement cycles. Participants in the discussion emphasised the need to extend the settlement period from 180 to 365 days, or at least to 270 days, for defence industry enterprises.

4. Delays in providing state guarantees

In practice, obtaining state guarantees or approval for other support instruments can take around six months. The main problem lies not only in the length of the procedure, but also in the absence of clearly defined deadlines for its individual stages and accountability for meeting them. This reduces predictability for defence industry enterprises and complicates the planning of financing, procurement and contract fulfilment.

5. Overly strict financial monitoring and compliance

Under NBU Resolution No. 65, the production of and trade in arms and military equipment are treated by banks as a high-risk factor for financial monitoring purposes. This approach may create additional barriers for bona fide defence industry manufacturers, particularly new companies and small and medium-sized enterprises, if applied formally and without taking into account their actual operations, ownership structure and existing government contracts.

6. Cost of goods sold for defence products

The current rules for calculating the cost of defence products do not fully take into account the costs required to fulfil contracts, in particular interest on loans, rental payments and staff training costs. This places additional financial pressure on manufacturers, particularly new enterprises that do not yet have sufficient cash flow to cover such costs independently. The issue requires clarification within the regulatory framework set out in CMU Resolution No. 1275.

7. Limited access to international financing

Since 2022, Ukraine’s defence industry has grown rapidly, with a significant number of new private manufacturers, technology companies and enterprises working with dual-use products emerging. At the same time, for many European financial institutions, such companies remain difficult to finance due to their limited track record, lack of reporting practices familiar to international lenders, high disclosure requirements and complex internal procedures. This creates a gap between Ukrainian enterprises’ need for rapid financing and the standard approaches of international financial institutions.

PROPOSALS DEVELOPED

Extension of preferential lending

- The Cabinet of Ministers of Ukraine and the Ministry of Defence should expedite amendments to Cabinet of Ministers Resolution No. 1288 to increase the working capital financing limit to UAH 500 million, with the possibility of using state portfolio guarantees and, if necessary, increasing funding for the relevant budget programme to compensate the interest rate.

Adaptation of banking regulation

- The NBU should review credit risk coverage ratios under NBU Resolution No. 351 with regard to pledges of property rights under government contracts with the Defence Procurement Agency and the Ministry of Defence.
- The NBU and the Ministry of Defence should develop a mechanism for taking into account confirmed 2–3-year plans of the government customer and move towards medium-term government contracts.

Accelerating risk mitigation instruments

- The Ministry of Finance and the Cabinet of Ministers should streamline and standardise procedures for approving state guarantees, designate officials responsible for inter-agency coordination and set target timeframes for review.
- The Ministry of Economy, in cooperation with the Ministry of Defence, should expedite the launch of war risk insurance mechanisms for manufacturers and investors.

Foreign exchange regulation

- The Ministry of Economy and the Ministry of Defence should prepare a detailed justification for the National Bank of Ukraine regarding the extension of settlement deadlines to at least 270 days for certain export and import transactions in the defence industry. The justification should include information on the specific features of the production cycle, prepayment, manufacturing, delivery and logistics timelines, and should be prepared by product category, UKT ZED codes and/or a list of critically important enterprises.
- Based on the justification provided, the Cabinet of Ministers of Ukraine and the National Bank of Ukraine should introduce the relevant amendments to Cabinet of Ministers Order No. 76 of 13 February 2019 and National Bank of Ukraine Resolution No. 67 and/or No. 18.

Compliance Adaptation for Legitimate Defence Industry Enterprises

- The NBU should review its approach to automatically classifying the manufacture of and trade in arms, ammunition and military equipment as high-risk factors under NBU Resolution No. 65 and introduce a differentiated approach that takes into account the status of the enterprise, the existence of government contracts, the transparency of its ownership structure and the actual nature of its manufacturing activities.

Improvements to defence procurement legislation

- The Cabinet of Ministers of Ukraine and the Verkhovna Rada should, as part of the work to update defence procurement legislation and amend Cabinet of Ministers Resolution No. 1275, regulate the possibility of including interest on loans, lease payments, staff training costs and other expenses necessary for contract performance in the cost of defence products.
- The Verkhovna Rada should consider introducing VAT exemptions for certain critical components, in particular turbojet engines for long-range strike systems and ground robotic systems.

Attracting international financing

- The Ministry of Defence and the Ministry of Economy should expand the use of the Ukraine Investment Framework, in particular the EUR 160 million mobilised to finance dual-use technologies, as well as develop joint ventures with European partners and preferential leasing instruments. Separately, it would be advisable to facilitate the participation of defence industry enterprises in EU defence sector financing opportunities, including under SAFE, primarily through partnerships with European companies and EU Member States.

Permanent coordination mechanism

- Establish a regular coordination forum involving the NBU, the Ministry of Defence, the Ministry of Economy, the Ministry of Finance, relevant committees of the Verkhovna Rada, state-owned and commercial banks, the Defence Procurement Agency, defence industry enterprises and relevant industry associations to facilitate the prompt coordination of changes to banking regulation, foreign exchange rules, guarantees, defence procurement and compliance. One of the first steps in this direction could be a memorandum between the NBU and the banking sector on prioritising the expansion of lending to the defence industry.

CONCLUSION

The main challenge in ensuring the defence industry's access to finance lies not in any single barrier, but in the fact that the financial system has not yet been fully adapted to the specific nature of wartime defence production. The sector requires faster, more flexible and, at the same time, controlled financial solutions.

The development of Ukraine's defence industry today has a direct impact not only on the country's economic resilience, but also on its ability to ensure its own defence and scale up technological capabilities in the security sector.

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