

# Financial Partnership between Banks and Defence Industry Enterprises



## BRIEF OVERVIEW

Access to finance remains one of the key factors determining the Ukrainian defence industry's ability to ramp up production during wartime. Despite the sector's rapid growth and the increase in bank lending, the financial system's potential is not being fully utilised: a significant proportion of enterprises — primarily start-ups, small businesses and regional companies — face limited access to credit, difficulties in providing collateral, strict financial monitoring and a lack of instruments to cover war risks.

On 12 June 2026, the We Build Ukraine think tank, in collaboration with FRU Defence and the Association of Ukrainian Banks, held a roundtable discussion entitled 'Financial Partnership between Banks and Defence Industry Enterprises'. The event was dedicated to establishing a sustainable model of interaction between the financial sector and defence manufacturers — ranging from lending, guarantees and documentary operations to project financing, risk insurance and attracting international capital.

## PARTICIPANTS

The following representatives took part in the discussion:

- the Ministry of Defence of Ukraine;
- the Association of Ukrainian Banks;
- state-owned and private banks, as well as banks with foreign capital, including Oschadbank JSC, PrivatBank JSC, Ukreximbank JSC, UkrGasbank JSC, Tascombank JSC and others);
- relevant industry associations: Technological Forces of Ukraine, the Ukrainian Dual-Use Technologies Cluster, the European Defence Association, the Aerospace Association of Ukraine, and the Federation of Employers of Ukraine (FEU);
- defence industry companies and the expert community.



## KEY CHALLENGES

### 1. War risks and the lack of insurance instruments to cover them

War risk is inherent and heightened in the defence sector; panellists representing the banking sector noted that it has materialised on multiple occasions in the course of financing clients. Although this risk does not currently have a significant impact on companies' ability to service their obligations, banks lack effective mechanisms for insuring or hedging against it. As a result, war risks reduce the investment attractiveness of projects and, for some new enterprises, become a decisive barrier to securing financing.

## 2. Loan collateral and property rights under government contracts

Defence manufacturing is predominantly contract-based, and the cost of production is largely determined by the cost of components; consequently, companies often lack tangible collateral. At the same time, government contracts do not currently create property rights that banks could accept as collateral. The sector relies heavily on government portfolio guarantees, but their limit is constrained and the allocation procedure is lengthy. Participants cited the regulation of property rights under contracts with state customers as a prerequisite for unlocking significant volumes of financing.

## 3. Long processing times for applications and the issuance of guarantees

In practice, waiting for portfolio guarantees and the review of loan applications can take around three months, which, in such a dynamic sector, is equivalent to a full production cycle. According to industry participants, within a calendar year, a company effectively waits for a guarantee, operates, and then waits again for the next one. This reduces predictability and complicates production planning and contract fulfilment.



## 4. The limitations of the preferential lending scheme

The current preferential lending scheme (at 5%) has played a significant role in scaling up production, but its terms do not meet actual needs. The limits of UAH 100 million for working capital and UAH 500 million for investment purposes are insufficient, particularly for new capital-intensive production facilities (ammunition, powders, components). An additional restriction is the requirement to have an RSO / classified records office, which narrows the range of banks participating in the programme.

## 5. The strictness of financial monitoring and foreign exchange supervision

Financial monitoring has been identified by participants as one of the most pressing issues. Imports of dual-use components, primarily from China, are often carried out through intermediaries, which complicates verification and increases the risks for banks, as they bear significant responsibility for potential violations. The problem is exacerbated by the lack of clear review deadlines, an inconsistent list of required documents, repeated requests, and demands for information that is objectively impossible to provide. Some requests concern sensitive data (in particular regarding personnel and production facilities), which creates additional security risks for businesses.

## 6. Limited banking resources and the underdevelopment of project financing

Banks operate primarily with depositors' short-term funds, mostly for up to one year, and limited capital, and are therefore unable to act as providers of venture or investment capital. For capital-intensive foundational production sectors (chemicals, engineering, electronics), domestic credit resources are insufficient, and project financing — based on future cash flows, without traditional collateral and with a repayment horizon of several years — remains underdeveloped in Ukraine. This limits the development potential of industries that are critical for reducing dependence on imported components.

## 7. Regional gap and a lack of sector-specific expertise in banks

Expertise in working with the defence industry is concentrated mainly in head offices and a few leading banks, whereas at the level of regional branches, companies often face automatic rejections. This is particularly problematic for manufacturers outside the capital. Participants emphasised the need to establish an accessible point of entry — contact persons and information for defence industry enterprises on banks' websites — as well as standardised training materials and the exchange of expertise between the industry and the financial sector.

## 8. The financial immaturity of the nascent sector

The Ukrainian defence industry is very young: the vast majority of companies have been in operation for less than three years. With production indicators growing rapidly, financial and management accounting often lags behind, and there is a shortage of qualified finance teams. From a risk assessment perspective, such companies are not always straightforward borrowers, which objectively complicates banks' lending decisions.

## 9. Handling sensitive information and access to state secrets

Restrictions on the handling of sensitive information limit the ability to work with defence industry enterprises at the branch network level. A particular barrier for banks with foreign capital is the requirement that access to state secrets is only permitted for banks whose chair of the management board is a Ukrainian citizen. At the same time, the risk of information leaks directly affects the physical safety of business owners and employees, which increases the requirements for confidentiality.



## DEVELOPED PROPOSALS

### Institutionalisation of partnerships between banks and the defence industry

- Build on the memorandum signed by 25 banks on defence industry financing, which covers four areas: consortium financing for large enterprises; direct financing for manufacturers of weapons, unmanned systems and ammunition; financing for dual-use goods; and support for small and medium-sized defence industry businesses under open contracts.
- Ensure the operation of a sectoral working group based at the Independent Association of Banks of Ukraine to monitor the implementation of the memorandum, develop training materials and coordinate the expected actions of state institutions, including the NBU, the Security Service of Ukraine (SSU), the Defence Procurement Agency, and the Ministry of Economy, with the involvement of the Ministry of Defence, the Defence Procurement Agency, BRAVE1 and representatives of manufacturers.

### Expansion of preferential lending and guarantees

- The Cabinet of Ministers and the Ministry of Defence should explore available options for implementing changes to increase the working capital financing limit under the preferential lending programme to UAH 500 million and to remove the requirement to have an RSO / classified records office in order to expand the pool of participating banks.
- The Ministry of Defence and the National Bank of Ukraine should consider options for increasing the volume of portfolio guarantees for the defence industry and designating a separate sectoral group for their accounting,<sup>3</sup> rather than continuing the current practice of using the general manufacturing industry group.

### **Property rights and factoring**

- Regulate the recognition of property rights under government contracts with state customers, thereby enabling the introduction of factoring for contracts with deferred payment terms (60–120 days) and the involvement of banks that do not have long-term funding.
- Move towards medium-term (2–3 years) government contracts to improve the predictability of producers' income and financing opportunities.

### **War risk insurance and risk sharing**

- Distribute risks among the parties involved: operational risks should be borne by enterprises, financial risks should be managed in cooperation with banks, and war risks should be shared with the state, drawing on international experience, including Israel's compensation mechanisms, the UK in 1941, and the US Defense Production Act of 1950.
- The Ministry of Economy, in conjunction with the Ministry of Defence, should expedite the launch of mechanisms for insuring war risks and capital investments, involving the export credit agency and national development institutions; at the same time, it should strengthen companies' responsibility for dispersing production and protecting sensitive information.

### **Project financing and capital market development**

- Examine project financing instruments for capital-intensive industries, as well as models for attracting foreign investors, joint ventures and export financing.
- Harness the potential of the defence sector as a driver of capital market development, where banks can act as financial intermediaries and underwriters to attract additional funding.



### **Harmonisation of financial monitoring and foreign exchange supervision**

- Without relaxing financial monitoring, introduce clear rules: response deadlines and a standardised list of documents, in order to avoid endless repeat requests.
- Make greater use of preliminary, free-of-charge financial monitoring of draft contracts and counterparties, as well as trade finance instruments, including letters of credit and guarantees, instead of advance payments.
- Facilitate the establishment by the industry of transparent, regulated distribution companies, or hubs, abroad for the procurement of components, thereby reducing the risks associated with working with intermediaries; ensure the mutual exchange of expertise between banks and manufacturers.

### **Adaptation of compliance and access to state secrets**

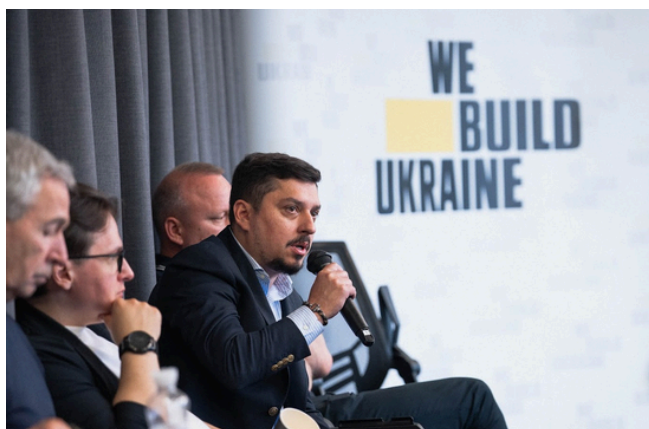
- The Security Service of Ukraine (SSU) should review the requirements for access to state secrets, expanding such access beyond the chair of the bank's management board. Syndicated lending should also be considered as a mechanism for engaging banks with foreign capital.

### Regional awareness and training

- Publish contact details and information for defence industry enterprises on banks' websites; develop standardised training materials on preparing document packages, business plans and financial statements; and establish practices for knowledge-sharing between the industry and banks.
- Make greater use of digital tools, including DOT-Chain, BRAVE1 and Defence Procurement Agency confirmations, for the expert assessment of manufacturers and mitigating credit risks.

### Attracting international capital

- Complete the recapitalisation of the national development institution, approximately EUR 160 million under the Ukraine Facility, to finance dual-use technologies and provide guarantees to businesses lacking sufficient collateral, with a gradual increase in the volume of funding and greater involvement of banks.



## CONCLUSION

The discussion highlighted the shared objectives of the banking and defence sectors and the financial system's readiness to step up cooperation: the increase in lending to the defence industry and the signing of the banking memorandum are evidence of this positive trend. At the same time, the main problem lies not in the banks' unwillingness to finance the sector, but in the fact that financial instruments and the regulatory framework have not yet been fully adapted to the specific nature of the young wartime defence industry.

The solution requires a collaborative approach and the sharing of responsibility between the state, banks and manufacturers, as well as the introduction of new instruments — property rights and factoring, project financing, war risk insurance, capital market development and standardised financial monitoring rules. Equally important are bridging the regional divide, sharing expertise and attracting international capital.

The development of financial partnerships between banks and defence industry enterprises has a direct impact on the state's ability to ensure its own defence and scale up its technological capabilities in the security sector.

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