Civil Society Letter on Ukrainian Debt
to the Directors of the World Bank and the International Finance Corporation

Ukraine has been at war for over one month. Russia invaded its territory and unleashed unprovoked terror on Ukraine's cities and civilian population. More than three million people have fled the war into neighbouring countries, as Russian attacks have hit highly populated areas. The UN warned that that number can reach seven million refugees, in addition to another seven million internally displaced people. The loss of human life in the war, the suffering of civilians in besieged cities and the massive displacement of people are at the core of the humanitarian crisis in Ukraine.

The World Bank has acknowledged that there will be a huge economic toll of the war, as a large share of Ukraine's infrastructure is destroyed and business activity is disrupted. The significant spillover effects to other countries are already felt and will intensify. When the sanctions against Russia and Belarus are added, the economic shocks of the war are reaching far globally.

On March 7th the World Bank has announced the supplemental budget support package for Ukraine, called Financing of Recovery from Economic Emergency in Ukraine – or FREE Ukraine – for $489 million. The package approved by the Board consists of a supplemental loan for $350 million and guarantees in the amount of $139 million. It is also mobilizing grant financing of $134 million and parallel financing of $100 million, resulting in total mobilized support of $723 million.

This support from the World Bank, while appreciated, needs to be expanded. The World Bank and its private sector lending arm, the IFC, can and should do more.

As an immediate measure, the WB and the IFC need to devote financing for debt forbearance and restructuring with its Ukrainian partners. Since 2014, when the country has already lost part of its territory in Crimea and has been fighting in the conflict in Donbas, the Ukrainian government has repaid the World Bank approximately US$3.32bn, including interest and fees.

Currently these resources are much needed for war efforts and humanitarian aid. Therefore, the further repayments should be managed within the carefully designed debt relief scheme, instead of rolling over the debt only to accumulate more of it for the future.

We suggest that debt management exercises are analyzed based on the following criteria:
(1) impact on the timing and access to new financing, especially IFI financing during war;
(2) impact on the cumulative amount of financing that Ukraine will be able to receive during and after the war, say over the next 5 years in the first instance,
(3) impact on the costs of any new debt and future dynamics of public debt stock

We strongly believe the debt relief and further support options for Ukrainian sovereign from the World Bank should be based on the following principles:

1) Provide grants instead of loans to avoid the accumulation of a debt burden;
2) Existing debt cancellation, that should be designed in a way that it does not cause cross-default on Ukraine's other debt, including Eurobonds, or damage Ukraine's reputation as a reliable borrower;
3) The amount of unconditional budget support should be increased substantially from the current levels;
4) The new debt should be in significant share denominated in Ukrainian currency to avoid FX risks for Ukraine in the immediate post-war future.

As a next measure, the World Bank should classify Ukraine as the country 'in conflict' and provide access to more flexible financing and concessional lending, and eligibility for debt waivers as an International Development Association (IDA) country. Meanwhile, the World Bank has not yet classified Ukraine as 'fragile and conflict-affected situation' (FCS), in order to access options for debt relief.

There are examples of timely and adequate support to Ukraine that they can follow. Two days after the World Bank announced the FREE Ukraine package, on March 9th, the European Bank for Reconstruction and Development (EBRD) has announced an initial "first round of support" resilience package of 2 billion Euro for Ukraine. In addition, the EBRD announced that it will help Ukraine's neighbouring countries that are directly affected by inflows of refugees with support from its Resilience and Livelihoods Framework. Within Ukraine one of the four main elements of the Resilience and Livelihoods Framework will be for *Payment deferrals, debt forbearance and restructuring*.

The need for forbearance and restructuring of the debt of Ukrainian businesses is also pressing. European Business Association's express survey among its Ukrainian members demonstrates the impact of the war on business in the country. Since the start of Russia's invasion only 17% of Ukrainian companies reported that they worked full time, while 29% of companies are currently out of business. In the times of war, 63% of businesses continue to pay salaries to employees in full, but it is not clear whether they will be able to pay wages for a long time if the activity is not resumed. All businesses try to support the state and the army.

In particular, the World Bank might consider cancelling the interest on already provided loans, cancelling debt payments, providing more grant financing, as well as providing concessional loans with deferral of first debt repayments. Any such action should be analyzed carefully in advance and structured in a way not to provoke a cross-default on any other liabilities and in close consultations with the rating agencies' methodologies for not to provoke the negative rating actions on Ukraine's sovereign.

The war that Ukraine is fighting now has already crippled its economy and will thwart the country's ability to address poverty and build prosperity for its people. In order to achieve their mission and to provide adequate support to Ukraine's economy, the World Bank and IFC need to step up the support and end the crippling effect of Ukraine's indebtedness.

Ukraine is fighting the war for its sovereignty, territorial integrity and independence, but also a war on behalf of all of its partners for democracy and freedom. At this historic moment, the World Bank and the IFC need to take immediate steps to support Ukraine for victory and for the future prosperity of its nation.

Ukrainian and global civil society calls on the World Bank and IFC's directors to pledge immediate support for debt relief for Ukraine.

Signatures

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