

# Business Development Fund (BDF)

December 2024

## From the German-Ukrainian Fund to the national development organization for micro, small and medium-sized enterprises in Ukraine

<b>Project Executing Agency</b>	Business Development Fund (BDF)
<b>Description</b>	The Business Development Fund promotes micro, small and medium-sized enterprises (MSMEs) in Ukraine. The BDF does not maintain its own branch network, but works with partner financial institutions in Ukraine and supports MSMEs in obtaining loans, interest subsidies and grants. Among other things, the BDF also runs the 5-7-9 program, which is well-known in Ukraine.
<b>Contracting Authority</b>	German Federal Government, in particular the Federal Ministry for Economic Cooperation and Development (BMZ), European Union (EU)
<b>Project Volume</b>	Active portfolio: EUR 62.4 million In planning: EUR 40.5 million Since 2005 (ongoing and completed projects): EUR 242.9 million

### Status Quo

Since the Russian war of aggression against Ukraine in February 2022, many Ukrainian micro, small and medium-sized enterprises (MSMEs) have faced the challenges of physical destruction of production facilities, inflation, a sharp decline in sales, labor migration and a lack of access to affordable and long-term financing, especially in local currency hryvnia. At the same time, investments are urgently needed for the transformation and survival of companies during the war. Businesses - especially in areas close to the frontline - play an important role both during the war and during reconstruction. They are the most important pillar of the Ukrainian economy: businesses are responsible for 74% of all jobs and 64% of value creation. Supporting them is therefore of central importance.

### The Business Development Funds (BDF)

The Business Development Fund (BDF) was founded in 1999 by KfW on behalf of the German Federal Government, the Ukrainian Ministry of Finance and the National Bank of Ukraine as the "German Ukrainian Fund" (or German-Ukrainian Fund: DUF).

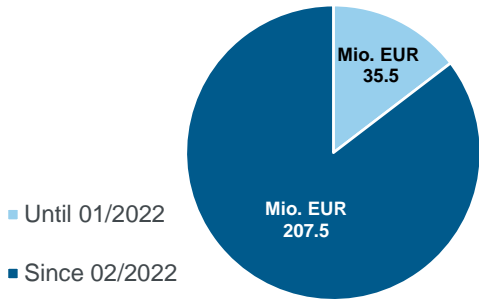
In its 25 years of existence, it has developed into one of the most important Ukrainian funding institutions for MSMEs and provides Ukrainian companies with access to urgently needed financing. Thanks to its strong capacities and very flexible structures, the BDF is able to respond to specific needs, political priorities and crises in a targeted manner and mitigate economic challenges. These include the political and economic transformation of Ukraine after independence, the Covid pandemic and now the Russian war of aggression. Since

its foundation, KfW has provided the BDF with financing for more than seven loan and grant projects on behalf of the BMZ and the EU.

One of these is a grant project (EU mandate) in the amount of EUR 5.2 million, used to hedge foreign currency losses incurred as part of FC projects with the BDF. This enables the BDF to extend the EUR-denominated BMZ loans to Ukrainian banks in local currency and enables loans to MSMEs amounting to around EUR 38 million. This therefore has a high leverage effect of 7, meaning that with the grant, a loan volume seven times larger can be realized.

Today, the BDF works with 52 different partner financial institutions (primarily commercial banks, but also leasing providers). This gives companies access to various financial products, e.g. loans, interest compensation payments, grants and loan guarantees. The BDF itself does not grant loans directly to companies.

## Commitment volume of KfW to BDF on behalf of the BMZ and the EU



### The role of the BDF in reconstruction - BDF Vision 2.0

Together with the Ukrainian government and other international partners, the BDF is to be expanded into a national development organization for MSMEs. To this end, the international initiative "BDF Vision 2.0" was launched as part of the Ukraine Recovery Conference 2024 in Berlin. BDF Vision 2.0 comprises three phases:

1. Transformation of the BDF into a sustainable, reliable, gender-equitable and independent institution for the design and implementation of international and state funding projects that ensures MSMEs access to finance.
2. The BDF successfully completes the EU Pillar Assessment and is thus able to raise funds directly from the EU, thereby advocating for EU alignment and integration within its mandate.
3. A strengthened BDF has the necessary status, rating and procedures to enter the capital market, issue local bonds and thus mobilize private capital for the recovery of the Ukrainian economy.

### The 5-7-9 Programme

Since 2020, the BDF has been implementing the government interest subsidy programme "Affordable Loans 5-7-9%", which gives MSMEs access to low-interest loans. The program reduces interest rates to such an extent that companies can afford urgently needed financing. Originally, gradual interest rates of five, seven or nine percent were being offered depending on the size of the company; recently, individual, and no longer fixed levels are available. The program is also supported by international partners, with KfW providing EUR 50 million for its refinancing on behalf of the BMZ.

In addition to the interest subsidy program, the BDF is currently implementing further FC projects. These include the introduction of energy efficiency credit lines, currency hedging to strengthen lending in local currency and the institutional strengthening of the BDF.

### Support in the context of war

Through the 5-7-9 programme alone, the BDF has been able to help more than 20,000 Ukrainian companies to maintain their business activities since the beginning of the war, more than 8,200 of which were financed by KfW on behalf of the German government.

Among them is the company "Goodevas", which manufactures Montessori toys for children. With a loan from the promotional program, the founders were able to finance a solar system on the workshop roof to make themselves less dependent on power outages. In the context of war, the system not only contributes to energy security, but also to the survival of the company.



Picture: Company owner Oleksandr and his technical manager Vladislav are delighted to have their own small power plant.

### The Partners of the BDF

The BDF manages itself and is under the supervision of the Ukrainian Ministry of Finance. In addition to state programs, the BDF implements a large number of projects with international partners. In addition to the German Federal Government (via KfW and GIZ), these include the EU, USAID, the World Bank, USAID, the Japanese development agency JICA, Luxembourg and UNDP.

### Publisher / Author

#### KfW Banking Group

Palmengartenstrasse 5–9  
60325 Frankfurt / Main, Germany

Phone +49 69 7431-1714

[Ann-Christin.Damm@kfw.de](mailto:Ann-Christin.Damm@kfw.de)

[www.kfw.de](http://www.kfw.de)

More information about KfW's engagement in Ukraine:

<https://www.kfw-entwicklungsbank.de/About-us/Ukraine/>

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Jonas Wresch