



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: August 1, 2018 | Report No: 129498



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Ukraine	P164414	Ukraine Economic Growth and Fiscally Sustainable Services Policy-Based Guarantee	
Region	Estimated Board Date	Practice Area (Lead)(s)	Financing Instrument
EUROPE AND CENTRAL ASIA	October 25, 2018		Development Policy Financing
Borrower(s)	Implementing Agency		
Ukraine	Ministry of Finance		

**Proposed Development Objective(s)**

The program development objectives of the proposed operation are to: (i) strengthen factor markets and institutions; and (ii) promote fiscally sustainable and effective services.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	IBRD Guarantee of US\$ 650 million equivalent
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**DETAILS**

Source: IBRD

**Decision**

Following the Corporate Review, the decision was taken to proceed with appraisal. Authorization to negotiate will be granted by the Country Director subject to appraisal findings regarding the completion of the outstanding prior actions.



## B. Introduction and Context

**The proposed Policy Based Guarantee (PBG) supports Ukraine’s efforts to address critical structural bottlenecks and governance weaknesses in a challenging economic environment.** Ukraine undertook far-reaching reforms in the face of unprecedented shocks in 2014-2015, which helped stabilize the economy and the financial sector, reduce large macroeconomic imbalances, and cushion the impact of the shocks on the population. As a result, after a cumulative 16 percent contraction in 2014-2015, the economy grew by 2.3 percent in 2016 and 2.5 percent in 2017, and the fiscal deficit was reduced from 10 percent of GDP in 2014 to 2.3 percent of GDP in 2015-2017. At the same time, the recovery of growth has been weak, macroeconomic vulnerabilities are considerable (with public debt at 72 percent of GDP in 2017 and major fiscal financing needs in 2018-2020), and poverty remains significantly elevated compared to pre-crisis levels (estimated at 24.5 percent in 2017, compared to 14.1 percent in 2014). Deep structural bottlenecks and governance challenges have contributed to the weak growth recovery, unsustainable fiscal spending, and ineffective social services. In addition, Ukraine faces headwinds from the ongoing conflict in the Donbas region, Presidential and Parliamentary elections scheduled in 2019, and considerable challenges in advancing reforms in a complex political environment.

### Relationship to CPF

**The proposed PBG is closely aligned with the objectives of the Ukraine Country Partnership Framework (CPF) for 2017-2021.** The objective of the CPF is to promote sustained and inclusive economic recovery through a program focusing on four areas including: (i) governance, anticorruption, and citizen engagement; (ii) making markets work; (iii) fiscal and financial sustainability; and (iv) efficient, effective, and inclusive service delivery. The proposed PBG is a central component of the CPF’s strategy to prioritize support for critical reforms. The reforms supported by the PBG are closely tied to the priorities identified in the 2017 Ukraine Systematic Country Diagnostic on “Toward Sustainable Recovery and Shared Prosperity”.

## C. Proposed Development Objective(s)

**The program development objectives of the proposed PBG are to: (i) strengthen factor markets and institutions; and (ii) promote fiscally sustainable and effective services.**

## D. Program Description

**The proposed operation supports reforms to tackle the structural underpinnings of Ukraine’s weak growth recovery and ongoing fiscal vulnerabilities under two key pillars: (i) strengthening factor markets and institutions; and (ii) promoting fiscally sustainable and effective services.** Under the first pillar, the reforms to strengthen factor markets and institutions are intended to bolster investor confidence and productivity along multiple dimensions: (i) strengthening corporate governance of the large state-owned banking (SOB) sector, and improving the resolution framework for non-performing loans should help improve the efficiency of financial intermediation and credit growth to the private sector; (ii) strengthening the transparency of agriculture land records should help improve incentives to invest in agriculture and create the conditions for the emergence of an agricultural land market once the moratorium is lifted; and (iii) establishing an independent anticorruption court to credibly adjudicate cases should help improve corruption perceptions and accountability, building on the increased transparency resulting from asset declarations and investigations by Ukraine’s new anticorruption institutions. Under the second pillar, reforms to



promote the effectiveness and fiscal affordability of social benefits and services (including pensions, energy subsidies, and health care) are intended to address fiscal vulnerabilities and reduce the reliance of household incomes on unsustainable social benefits, while bolstering job creation and the shift toward a greater reliance on wage income. The PBG-supported reforms were selected based on their criticality for achieving the development objectives under each pillar; government priority to complete the reforms; and the World Bank's comparative advantage in contributing to the design and implementation of the reforms.

## **E. Implementation**

**The Ministry of Finance (MoF) is responsible for the overall coordination of the proposed operation.** While the MoF is the primary coordinating counterpart, some of the line ministries are responsible for implementation in their respective areas. The Ministry of Agriculture and the Ministry of Justice have the responsibility for implementing the land reform, the Ministry of Finance in coordination with the National Bank of Ukraine has the responsibility for implementing the banking sector reforms, the Judicial Council has the responsibility for implementing the High Anti-Corruption Court, the Ministry of Social Policy has the responsibility for implementing the HUS and pension reforms, and the Ministry of Health has the responsibility for implementing the health reform.

## **F. Poverty and Social Impacts and Environment Aspects**

**The policies supported by this PBG are expected to have a positive or neutral gender, poverty and social impacts, particularly over the medium and long term.** Some of the actions aimed at boosting growth prospects, particularly those aimed at strengthening the financial sector, business environment, and anticorruption institutions are not expected to have any significant direct distributional effects. The impacts of these actions on households and especially the poorest are likely to be through expected higher and more sustainable growth rates. The other actions supported by the operation, including reforms to land markets, the HUS program, and pension and health systems could potentially have large direct distributional effects and are discussed further below.

## **G. Risks and Mitigation**

**The proposed operation is subject to high risks.** Political risks arise from elections scheduled in 2019, which could lead to lack of progress or backtracking on reforms. Security risks come from the potential for intensified conflict in eastern Ukraine, which could lead to a deterioration in economic prospects. Macroeconomic risks come from high level of public debt, major financing needs, and the sensitivity of investor confidence to political and security risks. The risks are mitigated by the strong voice of Ukrainian civil society in advocating for continued reforms and by Ukraine's strong cooperation with the international community.



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**Implementing Agencies**

Ministry of Finance

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**APPROVAL**

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