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Report No: PADHP00113

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT and
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN IN THE AMOUNT OF US$283 MILLION

FINANCED BY THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROPOSED CREDIT IN THE AMOUNT OF US$300 MILLION

FINANCED BY THE SPECIAL PROGRAM FOR UKRAINE AND MOLDOVA RECOVERY (SPUR) OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) CRISIS FACILITY

AND A TRUST FUND (TF) GRANT

IN THE AMOUNT OF US$10 MILLION

TO

UKRAINE

FOR A

RESILIENT, INCLUSIVE AND SUSTAINABLE ENTERPRISE PROGRAM FOR RESULTS

(P505616)

October 10, 2024

Finance, Competitiveness and Innovation
Europe And Central Asia

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CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2024)

Currency Unit =	Ukrainian Hryvnia (UAH)
US$1 =	UAH41.22
SDR1 =	US$1.36

FISCAL YEAR
January 1 - December 31

Regional Vice President:	Antonella Bassani
Regional Director:	Asad Alam
Country Director:	Robert J. Saum
Practice Manager:	Martha Martinez Licetti
Task Team Leader(s):	Alberto Criscuolo, Johanna Jaeger

ABBREVIATIONS AND ACRONYMS

ACG	Anti-Corruption Guideline
APA	Alternative Procurement Arrangements
ARISE	Ukraine Agriculture Recovery Inclusive Support Emergency Project
BDF	Business Development Fund
CBAM	Carbon Border Adjustment Mechanism
CE	Citizen Engagement
CMU	Country Management Unit
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Results
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
ECA	Export Credit Agency
EEPO	Entrepreneurship and Export Promotion Office
EHS	Environmental, Health, and Safety
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESG	Environmental, Social and Governance
ESMS	Environmental and Social Management Systems
ESRS	Environmental and Social Review Summary
ESS	Environmental and Social Standards
ESSA	Environmental and Social Systems Assessment
EU	European Union
FDI	Foreign Direct Investment
FM	Financial Management
G2B	Government-to-Business
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFSA	Integrated Fiduciary Systems Assessment
IMF	International Monetary Fund
IPF	Investment Project Financing
IT	Information Technology
IVA	Independent Verification Agency
KSE	Kyiv School of Economics
M&E	Monitoring and Evaluation
MFD-EP	Maximizing Finance for Development Enabling Project
MNC	Multinational Corporation
MoE	Ministry of Economy

MoF	Ministry of Finance
MPA	Multiphase Programmatic Approach
NBU	National Bank of Ukraine
NDC	National Determined Contribution
NES	National Economic Strategy
NPV	Net Present Value
NQI	National Quality Infrastructure
OECD	Organization for Economic Co-operation and Development
OHS	Occupational Health and Safety
OP	Operational Policies
PAP	Program Action Plan
PCE	Private Capital Enabling
PCM	Private Capital Mobilization
PDO	Program Development Objective(s)
PER	Policy Effectiveness Review
PFM	Public Financial Management
PforR	Program-for-Results Financing
IU	Implementation Unit
OM	Operations Manual
PPP	Purchasing Power Parity
RA	Results Areas
RDNA	Rapid Damage and Needs Assessment
RISE	Resilient, Inclusive and Sustainable Enterprise Project
SDR	Special Drawing Rights
SEA/SH	Sexual Exploitation and Abuse/Sexual Harassment
SME	Small and Medium Enterprises
SPUR	Special Program for Ukraine and Moldova Recovery
TA	Technical Assistance
TBD	To Be Determined
TF	Trust Fund
UAH	Ukrainian Hryvnia
UNHCR	United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
US$	United States Dollar
USAID	United States Agency for International Development
USD	United States Dollar
WB	World Bank
WBG	World Bank Group

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DATASHEET

BASIC INFORMATION

Project Beneficiary(ies)	Operation Name		
Ukraine	Resilient, Inclusive and Sustainable Enterprise Program for Results		
Operation ID	Financing Instrument	Does this operation have an IPF component?	Environmental and Social Risk Classification (IPF Component)
P505616	Program-for-Results Financing (PforR)	Yes	Moderate

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[✓] Fragile State(s)
[ ] Contingent Emergency Response Component (CERC)	[ ] Fragile within a non-fragile Country
[ ] Small State(s)	[✓] Conflict
[ ] Alternative Procurement Arrangements (APA)	[✓] Responding to Natural or Man-made Disaster
[ ] Hands-on Expanded Implementation Support (HEIS)	

Expected Approval Date	Expected Closing Date
31-Oct-2024	31-Oct-2027
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Program Development Objective(s)

Improve the enabling environment for a sustainable private sector-led recovery in Ukraine.

Organizations

Borrower:	Ministry of Finance of Ukraine		
Contact	Title	Telephone No.	Email
Yurii Draganchuk	Deputy Minister of Finance of Ukraine	380442015630	draganchuk@minfin.gov.ua
Olga Zykova	Deputy Minister of Finance of Ukraine	00380442775627	zykova@minfin.gov.ua
Implementing Agency:	Ministry of Economy of Ukraine		
Contact	Title	Telephone No.	Email
Oleksii Sobolev	First Deputy Minister of Economy of Ukraine	380442004745	osobolev@me.gov.ua

COST & FINANCING (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Government program Cost	**3,459.60**
Total Operation Cost	**2,774.80**
Total Program Cost	2,731.05
IPF Component	10.00
Other Costs (Front-end fee,IBRD)	33.75
Total Financing	**2,304.80**
Financing Gap	**470.00**

Financing (US$, Millions)

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	283.00

International Development Association (IDA)	300.00
IDA Credit	300.00

Non-World Bank Group Financing

Counterpart Funding	711.80
Borrower/Recipient	711.80
Trust Funds	10.00
Ukraine Relief, Recovery, Reconstruction, and Reform TF	10.00
Commercial Financing	1,000.00
Unguaranteed Commercial Financing	1,000.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Transitional Support	300.00	0.00	0.00	0.00	300.00
Total	**300.00**	**0.00**	**0.00**	**0.00**	**300.00**

Expected Disbursements (US$, Millions)

WB Fiscal Year	2025	2026
Annual	250.00	333.00
Cumulative	250.00	583.00

PRACTICE AREA(S)

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	High
9. Overall	High

POLICY COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

ENVIRONMENTAL AND SOCIAL

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	Not Currently Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

LEGAL

Legal Covenants

Sections and Description
The Borrower shall, through the MoE, establish by not later than one (1) month after the Effective Date, and thereafter maintain throughout the period of implementation of the Program, a steering committee ("Steering Committee") with terms of reference agreed with the Bank: (i) with composition, mandate and resources satisfactory to the Bank; (ii) to be chaired by MOE; (iii) to be comprised of, inter alia, representatives of the MoF, BDF, EEPO and ECA; and (iv) to be responsible for, inter alia, high-level interinstitutional coordination and strategic implementation overview functions, all further described in the Operational Manual.
The Borrower shall, through the MoE, establish by not later than one (1) month after the Effective Date, and thereafter maintain, throughout the Program implementation, an Implementation Unit ("IU") responsible for the implementation and monitoring of the Operation, with composition, functions, staffing, facilities and other resources satisfactory to the Bank and as further described in the Operational Manual.
The Borrower, through the MoE, shall: (i) hire by not later than one (1) month after the Effective Date and thereafter maintain, at all times during the implementation of the Program, a verification agent (or agencies) having experience and qualifications in the relevant technical fields, and under terms of reference acceptable to the Bank ("Verification Agent"), to verify the data and other evidence supporting the achievement of the Disbursement-Linked Results and to recommend corresponding payments to be made, as applicable; and (ii) ensure that the Verification Agent: (i) carries

out the verification process(es) in accordance with the Verification Protocol; and (ii) submits to the Borrower's MoE and the Bank the corresponding verification reports in a timely manner and in form and substance satisfactory to the Bank.
The Borrower, through the MoE, shall not later than one (1) month after the Effective Date, develop and adopt an operational manual for the Operation (the "Operational Manual"), in a manner and substance satisfactory to the Bank, and thereafter ensure that the Operation is carried out in accordance with such manual, which shall, with regards to the Program, set forth the institutional, administrative, financial, technical and operational guidelines and procedures for the implementation thereof.
The Borrower, through MoE, shall carry out the actions set forth in the Program Action Plan, or cause those actions to be carried out, in accordance with the schedule set out in the said Program Action Plan and in a manner satisfactory to the Bank.

Conditions

Type	Citation	Description	Financing Source

I. STRATEGIC CONTEXT

A. Country Context

1. **While Ukraine's economy shows signs of a modest recovery, Russia's invasion of Ukraine continues to impose an immense human and economic toll**. At least 10,582 civilians, including 587 children, have been killed and 19,875 have been injured since February 24, 2022. To date, over 6.3 million people have fled abroad and millions remain internally displaced (according to the UNHCR). Loss of private sector jobs and income, high inflation, and asset losses have pushed 1.8 million more people into poverty compared with 2020. While Ukraine's economy contracted by 28.8 percent in 2022, it has shown signs of a modest recovery in 2023, growing by 5.3 percent. This recovery continued into 2024, with initial growth estimates suggesting that gross domestic product (GDP) expanded by 6.5 percent year-on-year in Q1. At the same time, the sort-term recovery remains constrained by high security risks, damage to energy infrastructure, and sizable shortages of qualified labor. Recent attacks on the energy infrastructure undermine economic potential and cause serious risks for economic activity due to the disruptions in energy supply.

2. **Ukraine's policy framework is at an inflection point, transitioning from a focus on short-term macro stabilization towards a medium-term focus on resilience, growth, and sustainability.** Ukraine has been able to maintain macroeconomic stability since February 2022, controlling inflation, maintaining a stable currency, financing critical expenditure, and accumulating around US$ 40 billion in foreign exchange reserves. The receipt of significant external aid - US$42.5 billion in 2023 – was instrumental to this achievement. At the same time, with the current circumstances high defense expenditures continue to boost the fiscal deficit, which reached almost 25 percent of GDP (excluding grants) in 2023 and is expected to exceed 27 percent of GDP in 2024. To reduce Ukraine's dependence on external assistance going forward, the government continues to optimize expenditures and implements additional revenue measures.

3. **Successful recovery and reconstruction, and progress toward European Union (EU) standards, will require significant institutional reforms that both strengthen public sector capacity and facilitate a resilient and competitive private sector.** Implementation of extensive reforms—both prior to February 2022 and during the past two years—has played a major role in enabling the government to deliver on its core functions and initiate recovery. But further changes are needed. Experience from other countries highlights the central role of government in managing resource allocation and ensuring coordination during the reconstruction process. Moreover, given the scale of financing needs and the capacity of the Ukrainian private sector, there is a significant opportunity and need to take full advantage of the potential for the private sector to finance and execute recovery and reconstruction investments. In this context, the Ukraine Plan —which includes economy-wide and sectoral reforms, increasing the capacity to absorb investment, and crosscutting issues such as European integration, digital transformation, green transition, environmental protection, as well as human capital— plays a critical role over the coming years.

4. **Ukraine is highly vulnerable to the impacts of climate change and has committed to reducing greenhouse gas (GHG) emissions in the long-term.** Ukraine is at risk of hydrometeorological hazards and natural disasters such as droughts, elevated temperatures, heat waves, wildfires, soil erosion, mudflows, extreme precipitation, and flooding, which primarily affect agriculture, water resources, energy, transportation, health, urban environment, and forests. Women in Ukraine are particularly vulnerable to climate change impacts, and this vulnerability is exacerbated by crises such as the ongoing situation, which deepen existing gender inequalities and limit access to essential resources and services. Ukraine's Strategy for Environmental Security and Adaptation to Climate Change to 2030 lays out policy

measures addressing climate vulnerabilities and increasing climate resilience. Following up on the 2050 Low Emission Development Strategy from 2017, in the updated NDCs[1] submitted in 2021, Ukraine committed to the economy-wide reduction of GHG emissions by 65 percent (compared to the 1990 levels) by 2030, including Land Use, Land-Use Change and Forestry.

B. Sectoral (or Multi-Sectoral) and Institutional Context

5. **Businesses, in particular small and medium sized enterprises (SMEs)[2], have been greatly affected by the ongoing situation, yet shown remarkable resilience.** Since February 2022 the number of active enterprises fell by 15 percent, to about 760,000 entities, most (86 percent) of which were micro or small enterprises, with fewer than 50 employees. Demand shocks, driven by reduction in domestic consumer spending, loss of access to crucial export markets, and heightened uncertainty about sales outlook, and supply shocks, including physical damage, labor and input shortages, logistical disruptions, and limited access to financing, adversely impacted the private sector. The latest Rapid Damage and Needs Assessment of February 2024 (RDNA3)[3] estimates the damages sustained by the private sector at US$15.6 billion. Around 21 percent of firms experienced damage, with an average 53 percent drop in sales, a 25 percent reduction in employment, and a dramatic 76 percent fall in investment. Around 15 percent of all firms and up to 20 percent of manufacturing firms experienced power outages.[4] At the same time, many Ukrainian firms adapted their business strategies proactively and resiliently, and continued operating at a lower capacity (44 percent average capacity utilization), sought new customers and markets (36 percent), leveraged digital tools (41 percent), changed their product/services mix (17 percent), and adopted supply chain optimization techniques (12 percent).[5] Foreign investors and MNCs also stayed the course, with only 10 percent reducing productive capacity, while 30 percent purchased new fixed assets, 40 percent repaired existing assets, or even acquired new subsidiaries (3 percent).

6. **Firm support programs have become an important lifeline for SMEs, and businesses in general, but require strategic re-focusing and optimization in line with international best practices.** Firm support programs deployed by the Government of Ukraine (GoU) in the immediate aftermath of February 2022 show a significant potential for revamping, rationalization, and greater outreach. Only 8 percent of firms participated in support programs, with a lower rate of 6 percent among SMEs. On the one hand, limited outreach and low awareness of the public offering impacted the use of these programs, with only 26 percent of firms aware of them, and 15 percent of firms unable to find a suitable program. On the other hand, insufficient availability of public financing, with an estimated US$5.8 billion priority recovery and reconstruction needs for the private sector for 2024 alone (RDNA3), matched by a scant US$ 750 million of public funding allocated for the same year, severely constrained the ability of the GoU to meet the needs of firms. At the same time, participating firms performed better than non-beneficiaries in terms of sales (-8 percent vs. -15 percent), employment retention (-2 percent vs. -4 percent), and investment (+124 percent vs. +22 percent) as of March 2024, showing the potential benefits of revamped firm support programs also in accelerating the adoption of EU climate and environmental standards.

[1] https://unfccc.int/sites/default/files/NDC/2022-06/Ukraine%20NDC_July%2031.pdf
[2] SMEs account for two-thirds of total value added and over 80 percent of private sector jobs. The definition of SMEs in Ukraine has not changed since 2012, and it includes enterprises with less than 250 employees or an annual turnover of less than Euro 50 million. Source: Commercial Code of Ukraine, Article 55, as of March 22, 2012.
[3] *Ukraine - Third Rapid Damage and Needs Assessment (RDNA3) : February 2022 - December 2023 (English).* Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099021324115085807/P1801741bea12c012189ca16d95d8c2556a
[4] World Bank, "Ukraine: Firms through the War," November 2023, Link.
[5] World Bank, "Ukraine: Firms through the War," November 2023, Link

7. The Government of Ukraine is committed to improve the efficiency, effectiveness, and sustainability of public policies and programs supporting the private sector. As a first step, it launched a multiphase Policy Effectiveness Review (PER)[6] of the overall policy mix and program portfolio of the Ministry of Economy in support of SMEs, with the objectives of 1) institutionalizing systemic monitoring and evaluation and policy recalibration mechanisms related to the private sector, and 2) progressively increasing the efficiency of firm support programs as well as their alignment with EU pro-competitive practices. While not too distant from its Europe and Central Asia comparators, with an average PER functionality score of 2.7 for Ukraine versus 3.4 for Poland, 3.2 for Croatia, 2.6 for Bulgaria, and 2.4 for Romania respectively, firm support programs present significant potential for improvement on the following dimensions: Program Design, Implementation Mechanisms, Effective Resource and Management Quality, Monitoring and Evaluation, Systems Governance and Coordination among Programs, Continuous Learning and Programs Recalibration (See Annex 8, Figure 1). The institutionalization of a regular PER and programs' recalibration mechanisms, to improve performance as measured by the PER scores, is a policy priority of the MoE.

8. In particular, the GoU has already undertaken important steps towards increased efficiency and targeting of the 5-7-9 Program on interest rates compensation, which is the largest SME support program in the country. Since February 2022, the 5-7-9 Program has been a critical lifeline for SMEs by providing bridge financing with majority of loans being working capital loans.[7] Relatedly, the program has played a significant role in preserving jobs. SOBs account for around 45 percent of overall 579 supported lending volume.[8] As the 5-7-9 program grew over time, unintended impacts have materialized. Due to introduction of full interest rate compensation as well as broadening of the program in 2022 and 2023 (large enterprises and a wider range of sectors, maximum loan amounts were increased) the program became fiscally unsustainable. Since 2023, amendments to Resolution 28[9] refocused the Program on SMEs in priority sectors, increased interest rates for end beneficiaries, reduced bank margins and lowered the maximum size of working capital loans to non-priority sectors. An earlier backlog of bank compensations has been resolved. Authorities are currently working on: (i) reinstating state aid rules,(ii) further targeting the lower end of medium-sized enterprises, and (iii) implementing ESG requirements for banks and SMEs. Finally, the 5-7-9 Program has recently further increased its focus on promoting energy efficient practices of SMEs[10]. Reforms of the 5-7-9 Program are accompanied by measures to strengthen the BDF's effectiveness and sustainability as implementation agency of the program, including establishing a BDF supervisory board with majority of independent candidates and preparing a draft law to clarify the mandate and ensure the independence of the supervisory board, in line with the advice of the World Bank.

9. Strong Environmental, Social and Governance (ESG) frameworks are critical to manage climate-related risks and enable beneficiaries of firm support programs to comply with international sustainability standards. As part of

[6] The PER assesses the performance of SME support programs along the following functional dimension: Program Design, Implementation Mechanisms, Effective Resource and Management Quality, Monitoring and Evaluation, Systems Governance and Coordination among Programs, Continuous Learning and Programs Recalibration. All functional dimensions are benchmarked against international best practices across 31 categories by multiple independent evaluators according to standardized objective criteria. Overall, the multiphase PER envisioned under this operation includes also 1) the Efficiency Analysis module, which assesses how efficient specific firm support programs are in using inputs and generating outputs and results, and 2) the Effectiveness Analysis module, which evaluates the extent to which programs' outputs are transformed into expected outcomes. The World Bank has continuously supported client countries in the ECA region (e.g., Romania, Poland, Croatia) and across the world (e.g., Mexico, Brazil, Colombia, Philippines, Indonesia, Chile, etc.) in improving the quality and composition of their programs and policies to support SMEs. The PER methodology carefully maps expenditures by objectives, beneficiary type, and other characteristics, and then assesses the quality of these programs relative to global benchmarks and good practices. Selected sources on the PER methodology: "Strengthening World Bank SME-Support Interventions. Operational Guidance", WBG, 2021; "Public Expenditure Review for Science Technology and innovation", WBG, 2014.

[7] As of June 2024, the 5-7-9 program accounted for around 40 percent of the net UAH corporate portfolio (compared to 5 percent in 2020) with a total of UAH 129 billion of loans issued since February 2022 and a total of over 52,000 loan agreements issued.

[8] With exclusion of two active private banks due to local sanctions on related parties the percentage is expected to rise for newly issued loans.

[9] The conditions, criteria and mechanism of program implementation are determined by the Provision for state financial support to small and medium-sized enterprises, approved by the CMU decree No. 28 dated 24.01.2020 and the mechanism for the use of funds provided for in the state budget under the program «Ensuring the functioning of the Business Development Fund», regulated by the corresponding provision, which was approved by the CMU decree No. 29 dated 24.01.2020.

[10] Recent amendments of Resolution 28 have introduced further emphasis on renewable and energy efficient loans.

Ukraine's commitment to economy-wide reduction of GHG emissions by 65 percent by 2030, the introduction of ESG frameworks in the design of firm support programs would also enable Ukrainian firms to comply with international sustainability standards and gain access to export markets. Ukraine is the country in Europe and Central Asia most exposed to the Carbon Border Adjustment Mechanism (CBAM) of the EU, with a CBAM exposure index of 0.053[11] and 37 percent of Ukraine's exports of affected products by CBAM going to the EU. The GoU is committed to mitigate the exposure to CBAM and secure access to the EU market, and it has already undertaken important steps to integrate ESG risk management at the level of financial institutions, with the support of the World Bank[12]. Additional steps include adoption of an institution wide Environmental and Social Policy by BDF's Supervisory Board and planned amendments to Resolution 28 which will mandate banks participating in the 5-7-9 Program to have environmental and social management systems (ESMS)[13] in place requiring them to develop and maintain effective environmental and social policies and procedures and capacity for assessing, managing, and monitoring environmental and social risks and impacts of the program, as well as managing overall portfolio risks in a manner that is consistent with core principles of the World Bank policy for PforR and good international industry practices (GIIP). The ESG framework will lead to the assessment and management of environmental and climate risks, enhancing resilience through infrastructure improvements, resource management, and sustainable practices, while ensuring employee preparedness for climate impacts.

10. Improving the business environment, through regulatory simplification, government-to-business (G2B) digital services, and investment facilitation, is crucial to enhance the impact of firm support programs and unleash a broader private sector-led economic recovery. An ineffective business environment, characterized by pervasive regulation and overlapping state controls, continues to hamper private sector dynamism, with 76 percent of firms ranking regulatory simplification as a top priority in March 2024.[14] Despite the recent progress made by the GoU in simplifying business regulation, complex, outdated, and burdensome regulations remain in effect. According to the Ukraine Plan 2024-2027, in 2023 there were 84 areas of state supervision and control and over 30 inspection bodies with duplicating functions.[15] Similarly, the remarkable progress of Ukraine on e-government through the path-breaking Diia.Business platform remains incomplete, with the delivery of government-to-business (G2B) public services not fully digitalized and companies continuing to experience burdensome regulatory processes. A fragmented institutional landscape on investment attraction, lacking a unified vision, strategy, and institutional coordination mechanisms, create an opaque business environment for foreign investors as well. Multiple agencies do not provide a consistent value proposition to foreign investors, nor offer a one-stop-shop approach to investment facilitation and aftercare. The resulting subdued FDI flows limit technology transfer and adoption of green technologies, and hinder investment in critical industries and supply chains for the green economy, such as renewables and EVs. Equally, the persistence of old Soviet-type business regulations for domestic firms stifles innovation and the adoption of sustainable production practices and green technologies.

11. Access to international markets and enhanced export competitiveness of Ukrainian firms, enabled by a progressive harmonization and integration with the European Union (EU), are key drivers of a sustainable export-led recovery. World Bank and NBU's estimates suggest that Ukraine's output gap – the difference between what the

[11] The CBAM exposure index compares the carbon emission intensity of a country's CBAM products with the EU average. The higher the index, the higher the exposure.
[12] For example, through the Ukraine Agriculture Recovery Inclusive Support Emergency (ARISE) and the Strengthening the Partial Credit Guarantee Fund for Small Farmers in Ukraine Projects.
[13] The ESMS incorporates commitments to climate mitigation, adaptation, and resilience aiming to promote sustainable practices and leverage climate-smart technological advancements. It addresses high-risk activities such as large-scale logging and CO2 storage, requiring mitigation measures to manage significant environmental and climate impacts. The system includes instruments for promoting resource efficiency in energy and water use and managing waste emissions. By integrating these strategies into its financing activities, the BDF aims to foster resilience and inclusive growth, transforming risks into opportunities for SMEs, thereby contributing to a sustainable future.
[14] World Bank, "Ukraine: Firms through the War 2.0", June 2024.
[15] As of mid-2024, there are over 1,000 instruments of state regulation, including 528 permits, 224 licenses, 157 approvals, 145 conclusions, 121 certificates, 55 declarations, 42 notifications, and 23 authorizations, along with hundreds of product standards.

economy can theoretically produce and actual output – currently stands at between 20 and 25 percent of actual output.[16] Closing this gap by facilitating access to export demand is thus an immediate opportunity to accelerate growth. The ongoing situation caused a significant drop in exports, with 95 percent of firms exporting to the Russian and Belarusian markets suffering a complete halt, and 75 percent of firms exporting to other markets experiencing sharp declines. At the same time, the loss of traditional CIS export markets accelerated the ongoing transition towards the EU market, with the share of Ukrainian exports to the EU jumping from around 32 percent in 2020 to around 44 percent in 2022. Aligning legislation and regulation with EU trade framework, strengthening the competitiveness of Ukrainian exporters through greater access to export credit and war risk insurance provided by the Export Credit Agency (ECA), and export promotion programs by EEPO, and harmonizing Ukrainian product quality, safety, energy efficiency, environmental, and overall sustainability standards with the EU are top policy priorities of the Government of Ukraine to lay the foundations for an export-led recovery.

12. **The National Economic Strategy (NES) (2021-2030), the Ukraine Plan (2024-2027) and Ukraine's Reforms Matrix 2024 lay out key reforms to support SMEs and stimulate business activity.** Key relevant reform areas of the NES focus on entrepreneurship development, regulatory environment, investment attractiveness and international economic policy and trade. The recently adopted Ukraine Plan (2024-2027) focuses on three key directions as regards to the private sector reform agenda: improving the regulatory environment, facilitating access to finance and markets, and closing the gap between EU and Ukrainian policy frameworks, through a series of micro, sector-wide reforms with the transition to a green, digital, and inclusive economy being stipulated as cross-cutting themes. Relevant reforms are also outlined in Ukraine's Reforms Matrix's pillar on economic competitiveness.

C. Relationship to the CPS/CPF and Rationale for Use of Instrument

13. **RISE is part of the WBG effort to support the people of Ukraine which has mobilized over US$41 billion since February 2022**. The World Bank engagement is guided by the Ukraine Country Program Update, submitted to the Board in June 2023, which identifies maintaining essential public services and relief efforts, supporting repair and reconstruction of core infrastructure, sustaining the private sector, and supporting key reforms for sustained economic growth during recovery and reconstruction phases. This operation focuses on the last two of these objectives. Other operations directly complement this PfoR through support to related areas, such as the Ukraine Agriculture Recovery Inclusive Support Emergency (ARISE) project that supports the 5-7-9 program[17] in the agricultural sector. Similarly, RISE supports critical implementation steps that complement the private sector reforms supported in DPOs. The PforR is also aligned with the IFC's Economic Resilience Action (ERA) program, adopted in December 2022 to support the Ukrainian private sector by financing US$2 billion in near-term investments and upstream/advisory work to prepare the reconstruction, including planned advisory support on investment promotion.

14. **The Program is consistent with Ukraine's NDC goals, national climate action strategies and plans.** The project aligns with Ukraine's updated NDC and National Energy and Climate Plan 2025 - 2030, which prioritize energy efficiency, the development of renewable energy sources, a substantial reduction in GHG emissions by 2030 and the development and financing of innovations and research in the field of clean technologies, renewable energy, and low-

[16] NBU 2023.

[17] Specifically on the 5-7-9 program, two DPOs (Relief and Recovery and the Growth Foundations DPOs) supported complementary efforts to optimize the program (including an elimination of full interest rate compensation and a focus on SMEs). The restructured Accelerating Private Investment in Agriculture P4R ("APIA") and the ARISE IPF financed the 5-7-9 expenditure program but without providing support to the program's structure or legal underpinnings and with a focus on agribusiness only in 2023 and 2024. Finally, complementary to the ARISE Project (P180732), RISE will cover all other sectors except beyond agribusinesses (around 50 percent of program expenditures). Once the US$ 500 million allocation envisaged under ARISE (Component 1) has been exhausted, RISE will cover all sectors including agribusinesses.

carbon production. The operation supports objectives through initiatives like enhancing SME financing aligned with ESG standards, promoting environmental and social policies in Ukrainian financial institutions, and encouraging green economy investments. It harmonizes Ukraine's sustainability standards with the EU to support a green, private sector-led recovery. These strategies aim to reduce greenhouse gas emissions and mitigate climate impacts, aligning with Ukraine's Low Carbon Development Strategy. Additionally, the operation integrates resilience measures from Ukraine's National Adaptation Plan, using green technologies and improving energy efficiency to help SMEs adapt to environmental standards and future climate impacts.

15. **The PforR instrument is considered the most appropriate instrument to support the private sector and SME recovery agenda because it focuses on reform implementation and results, uses government systems, and supports institutional strengthening**. The rationale for World Bank's engagement and use of the PforR financing instrument for supporting Ukraine's National Economic Strategy (NES) 2021-2030 and Ukraine Plan 2024-2027 is realistic due to its emphasis on results, flexibility, capacity building, governance, economic integration with regional markets, and the potential to attract further support, all of which are critical in navigating the complexities of the current country situation while laying the foundations for future recovery. The PforR complements Development Policy Operations, which focus on the development and approval of policy and regulatory framework for reforms, by supporting the implementation and application of policies and regulations. Technical assistance needs to support reform implementation will be met partly from an investment component under the PforR, in all the instances in which they are not included in the National Budget, and consequently Expenditure Program financed by the PforR component. However, the majority of Ukraine's technical assistance needs will be met from parallel financing and technical assistance supported by development partners.

16. **The challenges posed by the ongoing situation require implementation of the PforR over a short period of time.** While the Government program presents a long-term reform agenda, the proposed PforR will offer financial assistance to Ukraine's struggling SME sector in the next 36 months while focusing on critical institutional reforms for agile state-led support to SMEs in the medium term, with a focus on green competitiveness, improve the business environment through regulatory simplification and G2B digital services, and improve SMEs access to export markets. Given the uncertainty of the funding envelope for Ukraine, with most operations funded by loans guaranteed by countries and grants, the PforR will have a financing gap of $450 million to support 2025 and 2026 reforms.

II. PROGRAM DESCRIPTION

A. Government Program

17. **As a response to the challenges described above, the GoU's NES 2021-2030 and the Ukraine Plan 2024-2027 provide a robust strategic framework to advance key private sector reforms and directly support the recovery of Ukrainian firms.** The NES 2021-2030 sets the overall economic strategy for Ukraine, and anchors it on the unfinished economic reform agenda while setting clear directives for a private sector led recovery under the circumstances. The Ukraine Plan 2024-2027[18] outlines the country's vision for medium-term socio-economic growth and aims to accelerate Ukraine's EU accession path. It addresses the devastating impact of the ongoing situation on Ukraine's productive capacity and economic activity, focusing on reconstruction, recovery, and modernization. The resulting

[18] The Ukraine Plan is co-financed by a dedicated EU support mechanism providing up to €50 billion for Ukraine's recovery, reconstruction, and modernization efforts from 2024 to 2027. https://www.ukrainefacility.me.gov.ua/en/

Government Program provides a coherent strategic framework focused on 1) improving the efficiency of state support to firms, and SMEs in particular (Results Area 1), 2) improving the business environment (Results Area 2), and 3) enabling access to export markets (Results Area 3). See Annex 2 for a complete assessment.

18. The NES and Ukraine Plan are appropriate to be supported by a PforR, with projected investments into private sector support programs and related reforms for 2024-2026 reaching US$3.46 billion. Enterprise support programs form an important pillar of the reforms and investments covered under the Ukraine Plan aimed at strengthening the business environment. Key objectives are to create effective and transparent state programs for enterprises and ensure the efficient functioning of the existing state infrastructure in support of SMEs. Programs included in the Ukraine Plan are grant support programs for the creation or development of new businesses, including the eRobota program, the 5-7-9 interest rate compensation program facilitating accessible and affordable SME loans, programs strengthening the potential of domestic exporters as well as programs incentivizing both domestic and foreign investments. Ultimately, the GoU expects to invest US$3.46 billion from central budgets into private sector support programs between 2024 and 2026.

19. The proposed PforR is complementary to a wide range of other private sector support provided by the World Bank Group (WBG) and other development partners in Ukraine. The implementation of the operation is supported by a number of development partners through the provision of complementary external funding in the form of guarantees and grants and technical assistance for policy/regulatory reforms and institutional capacity (see Annex 6). Complementary financing (outside the scope of the Program) is provided by the EU and the IMF's Extended Fund Facility (EFF) program which focuses on fiscal sustainability of the 5-7-9 program as well as BDF's institutional strengthening (structural benchmark on BDF concept met in March 2024). In this context, the WB operation – complementary to the EFF and Ukraine Plan - is aimed at supporting the authorities in actual implementation of the envisaged policy and legislative reforms, e.g. implementing the G2B digitalization agenda of the deregulation action plan, harmonized standards for products, and further reforms of the 5-7-9 program. In addition, implementation will be closely coordinated internally with IFC's investment and advisory services, including planned advisory support on investment promotion, and with development partners such as EU, IMF, EIB, USAID, EBRD and other bilateral donors that provide technical assistance to the Government of Ukraine in the areas of private sector reform. Credit lines and risk-sharing facilities supporting SMEs and private companies more broadly in the country are provided by the WBG through IFC, and by EBRD, and EIB.

20. The NES 2021-2030 builds on the analytical work and assessments conducted by the World Bank under the CPF 2017-2021, and is aligned with the Ukraine Country Program Update of 2023. The GoU prepared the Ukraine Plan 2024-2027 through a consultative process with the development partners, the European Union, and under close collaboration and technical guidance from the World Bank. The Ukraine's Reform Matrix 2024-2027, and the Reform Matrix Priorities 2024 have been prepared with direct advisory and technical assistance from the World Bank, and incorporate international good practices as well as lessons learned on reform implementation globally. The Policy Effectiveness Review (PER) of the overall policy mix and program portfolio in support of SMEs is conducted by the MoE building on the methodological approach, recommendations on best practices, and lessons learned from international experience developed by the World Bank.

B. Theory of Change

21. The Program Theory of Change addresses critical challenges to increased private sector participation, and in particular by SMEs, in the reconstruction and future growth of Ukraine's economy. The Program's PDO is to improve the enabling environment for a sustainable private sector-led recovery in Ukraine. The theory of change addresses critical challenges to private sector resilience, growth and sustainability, including regulatory burden, lack of finance and insufficient market access, through the Program's three complementary results areas: (1) Improving efficiency of state support to SMEs, with a focus on green competitiveness; (2) Improving the Business Environment and G2B Digital Services; and (3) Enabling SMEs access to export markets (Table 1). It adequately combines and articulates the GoU's efforts to, first, implement its business environment reform agenda (e.g., regulatory simplification, digital G2B services, standards alignment with the EU) and, second, provide more efficient support to businesses by strengthening the institutional capacity of key agencies (e.g., Business Development Fund, UkraineInvest, ECA, EEPO) in charge of the programs included in the PforR's expenditure framework.

Table 1. Theory of Change

PDO: To improve the enabling environment for a sustainable private sector-led recovery in Ukraine.

Key Challenges	Result Areas & Program Interventions	Outputs/ Intermediate Outcomes	PDO Outcomes
▪ Firm support programs have become an important lifeline for SMEs, but there is scope to improve their outreach, design, and implementation modalities. ▪ Development of a sustainable finance market as well as ensuring the sound management of ESG by FIs and beneficiaries of firm support programs are still at a nascent stage.	**RA1 Improved efficiency of state support to SMEs, with a focus on green competitiveness** ▪ Develop SME Strategy and Action Plan with focus on green competitiveness. ▪ Conduct Program Effectiveness Review (PER) of the portfolio of firm support programs. ▪ Develop ESG requirements for 5-7-9 Program.	▪ Priority SME programs under MoE amended in line with PER findings. ▪ Redesigned firm support programs (with focus on SMEs) under MoE financed and delivered. ▪ 5-7-9 Program's lending terms and conditions revised, and bank margins reduced. ▪ Improved targeting, design, implementing modalities and M&E of firm support programs ▪ USD 200 mln loans (PCM) under the redesigned 5-7-9 program (40 mln of it in loans to female headed firms) **(DLR 1.1)** ▪ BDF's Supervisory Board adopted its ESG policy **(DLR 2.1)** ▪ At least 20 banks accounting for 90 percent of the overall 5-7-9 lending volume adopted ESMS **(DLR 2.2)**	▪ Increased efficiency of redesigned firm support programs as measured by the improved average PER score **(PDO 1 & DLR 1.2(i))** ▪ Increased outreach of redesigned firm support programs and mobilization of private capital **(PDO 2 & DLR 1.2(ii))** ▪ Increased number of jobs created or preserved by redesigned firm support programs, of which 40% for women **(PDO 3 & DLR 1.3)** ▪ Strengthened ESG frameworks enabling an increased number of beneficiaries of firm support programs to comply with ESG requirements **(DLR 2.3)**
▪ Despite Ukraine's advanced e-government, G2B services are not fully digitalized, and companies experience duplication of regulatory processes and increased compliance burdens. ▪ Investment attraction and facilitation is currently fragmented across various government institutions, lacking a unified vision, strategy, and an effective one-stop-shop approach to investment facilitation and aftercare.	**RA2: Improved business environment and G2B digital services** ▪ Design and develop the Diia.Business Portal 2.0, including the adoption of the relevant regulatory simplification acts for its operation. ▪ Design E-permit G2B digital platform ▪ Develop new FDI strategy with a green economy focus. ▪ Review investment facilitation arrangements	▪ Diia Business Portal 2.0 launched **(DLR 3.1)** ▪ E-permit G2B digital platform fully deployed ▪ 500,000 unique visits on the Diia Business Portal 2.0, and 90,000 registered accounts **(DLR 3.2)** ▪ 200.000 applications submitted via the E-permit system **(DLR 3.4)** ▪ FDI Strategy adopted by the Cabinet of Ministers **(DLR 3.3)** ▪ Investment attraction and facilitation institutional framework and strategy strengthened	▪ Increased number of firms benefiting from streamlined business regulation through G2B digital services **(PDO 4)**, (with the associated benefits of reduced administrative compliance burden (time, cost, and resource savings), and increased transparency) ▪ Increased potential investment leads as a result of better investment targeting and aftercare associated with the new FDI strategy ▪ Increased private capital mobilized **(PDO 2)**
▪ GoU institutions such as ECA and EEPO provide important services for exporters, but scaling up their impact requires strengthening their strategy and institutional and operational models. ▪ Product standards are not harmonized with the EU, including sustainability standards. This undermines the capacity of Ukrainian producers and exporters of higher-value-added manufacturing goods to access the EU market.	**RA3: Enabled SME access to export markets** ▪ Develop new ECA strategy and design new war risk insurance product for exporters. ▪ Build the EEPO's capacity to deliver export promotion and business consulting programs. ▪ Prepare harmonized standards for 3 groups of industrial products (machines, electromagnetic compatibility of equipment, low-voltage electrical equipment)	▪ New ECA strategy adopted **(DLR 4.2)** ▪ EEPO's export promotion and business consulting programs financed and delivered ▪ ECA's capacity and product offering strengthened ▪ 10 export- oriented projects of SMEs covered by ECA including war risk in line with ECA strategy **(DLR 4.3)** ▪ 3,000 SMEs received business consulting services (online or face to face) from EEPO **(DLR 4.1)** ▪ 500 firms completed capacity building programs on EU harmonized product standards**(DLR 4.4)**	▪ Increased exports by beneficiaries of redesigned firm support programs **(PDO 5)** ▪ Increased access by SMEs to export promotion/consulting services by EEPO, as well as ECA financing instruments ▪ Increased number of firms certification-ready through completion of capacity building programs on EU harmonized standards.

Technical Assistance

- Operational support
- Targeted technical assistance and capacity building
- IT solutions

C. PforR Program Scope

22. The Program will support the implementation of selected components of the Government's National Economic Strategy (NES) 2021-2030 and the Ukraine Plan 2024-2027. More specifically, it will support the implementation of selected reforms and investments, under the NES and Ukraine Plan, led by the Ministry of Economy (MoE) and other agencies aiming to improve conditions for private sector growth and provide support to firms. It will support the objectives of 1) improving the efficiency of the portfolio of public firm support programs,[19] 2) improving the business environment through the enhanced provision of government-to-business (G2B) digital services, and 3) enabling SME access to export markets, as prioritized under Directives 3, 5, 7, and 17 of the NES 2021-2030, and Pillar 1 of the Ukraine Plan 2024-2027. Digitalization of government services for the private sector and support for the green transition will be important cross-cutting themes. The Program, which will include both ongoing and new activities, will have a strong focus on strengthening the GoU's institutional capacity to design, implement, monitor and evaluate private sector development programs. The Program will have a nationwide scope (excluding territories temporarily no longer under the government's control and territories close to the frontline) and will align with the implementation period of the Ukraine Plan. Table 2 summarizes the alignment of the Government Program and the Program supported by the PforR Operation by results areas.

Table 2. RISE – Scope

	Government program (National Economic Strategy and Ukraine Plan)	**Program supported by the PforR**	**Comments on alignment**
Objective	Strengthen resilience of SMEs in the face of economic impacts of the current circumstances and foster recovery in short run while also improving the productivity, competitiveness and growth of the MSME sector in the long run.	Strengthening institutions and markets to enhance MSME performance.	The PforR is fully aligned with the NES and Ukraine Plan objectives, but with prioritized focus on facilitating: (i) institution-building; (ii) improve efficiency of state programs to SMEs, with a focus on green competitiveness: (iii) improve business environment and G2B digital services; and (iv) enabling SMEs access to export markets.
Duration	*2021-2030 (NES)* *2024-2027 (Ukraine Plan)*	*2024-2027*	The PforR supports four years of the reform program implementation based on availability of funding.
Geographic coverage	*All the country*	*All the country*	
Results areas	NES Direction 3. Regulatory environment NES Direction 5. International economic policy and trade NES Direction 17. Entrepreneurship Development Ukraine Plan: Chapter on Business Environment including cross-cutting themes: transition to a green, digital, and inclusive economy	(i) Institution-building; (ii) improve efficiency of state programs to SMEs, with a focus on green competitiveness: (iii) improve business environment and G2B digital services; and (iv) enabling SMEs access to export markets.	The PforR is fully aligned with the NES and Ukraine Plan results areas, but with prioritized focus on facilitating: (i) institution-building; (ii) improve efficiency of state programs to SMEs, with a focus on green competitiveness: (iii) improve business environment and G2B digital services; and (iv) enabling SMEs access to export markets.

[19] Firm support programs included in the PforR Operation are the E-Robota Business Support Grant Programs (both for microenterprises and SMEs), the "Affordable Loans 5-7-9%" Program, the program "State incentives for creation of industrial parks", the program 'Government support to investment projects with significant investments (Investnanny)' , the "Support for Domestic Demand for Local Goods and Services" Program, the Innovation Development Fund, the Business Development Fund, the "Agricultural Machinery and Equipment Grants" Program, the export promotion, export readiness, certification and standards, and advisory programs of the Entrepreneurship and Export Promotion Office (EEPO), insurance, reinsurance and guarantees programs of the Export Credit Agency (ECA).

Financing Amount[20]	USD 3,459mln	USD 2,744.8mln	

23. The Program finances both investment and advisory activities to achieve the reforms and results described in Table 3 (see also the section on Results Areas)**, and is aligned with the priorities of the overall program of the GoU** (see section A and Table 2)**.** Significant funding will support the increased outreach and improved technical delivery of the portfolio of firm support programs of the GoU, to complement and enable actual implementation of the reforms on entrepreneurship development and sustainability, regulatory environment, investment attractiveness, and export competitiveness also envisioned under the Government Program. Sectoral reforms and institutional capacity building are key Program dimensions, leveraging the strengths of the PforR instrument. As discussed above, the Program's theory of change builds on these efforts to improve the magnitude and quality of government service delivery and to achieve stronger outcomes and impacts. Similarly, the Program will also enhance inter-institutional coordination within the GoU on economic policy, by building the capacity of the MoE to serve as the lead implementation agency, and by establishing clear consultation and coordination mechanisms among all institutions involved in implementation.

24. The PforR Program is based on global experience showing that pro-competitive, well-designed government business support programs, with sound implementation and financing modalities, can be an important enabler for firms with growth potential, and ensure the additionality of public funds. The Program aims at minimizing the adverse impacts of the current situation on otherwise viable firms, while progressively moving towards more market-based policy solutions in preparation for the recovery. As such, the significant market and coordination failures caused by the widespread economic disruption since February 2022 warrant a temporary more directed and targeted approach to help firms "keep the lights on", while embedding the pro-competition principles of 1) appropriateness, 2) contestability by design, and 3) informed implementation for positive effects[21], in business support programs.[22]

25. The PforR expenditure program for the GoU's private sector reform agenda for 2024-2026 is approximately US$2.758 billion. The main subventions are dedicated to funding several firm support programs through diverse modalities– including soft loans and grants - which form the underlying expenditures of results area 1 focusing on improving the efficiency and ESG compliance of these programs. In addition, MoE salaries are included as an eligible expenditure in support of key interventions in the ecosystem related to improving the business environment and enabling SMEs access to export markets such as strengthening the strategic frameworks for investment facilitation and export credit, de-regulation and digitization as well as EU harmonization of product standards (results areas 2 and 3). Moreover, the EEPO budget program is dedicated to advisory services and technical assistance programs which have increasingly been provided online to complement those provided in physical locations (results area 3). More details for the respective budget programs can be found in Annex 2.

26. The RISE Program expenditure program includes the salaries for MoE and funding for the 5-7-9 program. However, the design of the RISE Program ensures that these expenditures are not double counted in the World Bank operations. In the case of MoE salaries, the PEACE Project (P178946) will finance the salaries in 2024 while the RISE PforR will cover them in 2025, 2026 and 2027. The SURGE (P504773) expenditure program includes no allocation for MoE salaries and is therefore complementary to this operation. Finally, complementary to the ARISE Project (P180732), RISE will cover all

[20] Amounts include US$ 1 bln of PCM.

[21] World Development Report 2024: The Middle-Income Trap. Washington, D.C. World Bank Group 2024.

[22] Included firm support programs meet acceptable pro-competition requirements as participation by firms is open and linked with clear selection criteria. The PER supports their progressive redesign and alignment with international best practices by a) institutionalizing systemic M&E and policy recalibration mechanisms, and b) increasing their efficiency and full alignment with international pro-competition practices. The PforR Program also establishes the necessary E&S safeguards through a legally binding exclusion list of activities. Finally, all programs are part of the Ukraine Plan 2024-2027, and Ukraine Reform Matrix 2024-2027, with a full endorsement by the international donor community, reflecting the expectation of progressive compliance with EU competition and state aid rules as part of the EU Accession process.

other sectors except agribusinesses (around 50 percent of program expenditures). Once the US$ 500 million allocation envisaged under ARISE (Component 1) has been exhausted, RISE will cover all sectors including agribusinesses.

Results Areas

27. Results Area 1: Improved efficiency of state support to SMEs, with a focus on green competitiveness. This result area will strengthen the GoU's capacity to deliver more and better technical and financial support services to firms, and it will also support green competitiveness by ensuring firm support programs foster the adoption of environmental and social standards (ESG) by the relevant Ukrainian financial institutions. Key interventions supported under the RA include: 1) a multiphase and regular Policy Effectiveness Review (PER) of the overall policy mix and program portfolio in support of SMEs to inform redesign of key enterprise support programs, including the 5-7-9 Program, based on PER results and with a focus on improving gender targeting on selected programs through collaborations with women's business associations, gender-lens analysis of program data, and potentially developing a dedicated window of financing for women-led firms where viable, recognizing that women are more vulnerable to climate change and the ongoing situation 2) financing and delivery of the redesigned firm support programs described in the Technical Assessment and Annex 8, 3) adoption of an institution wide Environmental and Social Policy by BDF's majority independent Supervisory Board and amendments to Resolution 28 mandating banks participating in the 5-7-9 Program to have environmental and social management systems (ESMS) in place and SMEs to comply with these requirements[23]. Financing for grants, matching grants, soft loans, advisory services, consulting technical expertise, and salaries of public officials involved in the administration of the firm support programs and of implementing the reforms under this results area will support the implementation of the activities. Expected results under Results Area 1 will lead to the following outcomes: a) increased efficiency of firms support programs as measured by the improved average PER score, b) increased outreach of redesigned firm support programs and mobilization of private capital, c) strengthened ESG frameworks enabling an increased number of financial intermediaries and beneficiaries of firm support programs to comply with international sustainability standards, and d) increased number of jobs created or maintained by redesigned firm support programs.

28. Results Area 2: Improved Business Environment and G2B Digital Services. This result area will support ongoing efforts of the GoU to streamline the regulatory environment governing business entry, operation and exit by further digitalizing related procedures and government-to-business (G2B) services, entailing a substantial reduction of GHG emissions of 9,945 tCO_2, representing a 22.4 percent reduction.[24] It will also support the government's efforts to develop a more effective investment promotion and facilitation eco-system, with a focus on green sectors[25], through the development of a new FDI Strategy[26] embodying a unified and consensual vision by the GoU. Key interventions include: 1) the first-time launch of the DiiA.Business Portal 2.0[27] aimed at better supporting firms in developing and scaling their businesses, with significant reduction of carbon intensity of G2B interactions, 2) The first-ever full deployment of the E-permit G2B digital platform as part of the wider de-regulation action plan, also entailing significant reduction of carbon intensity, and 3)

[23] See Climate Annex (Annex 9) for further detail.

[24] A GHG analysis of the DLRs supporting the digitalization of G2B services, such as the launch of the Diia.Business Portal 2.0 and the full deployment of the E-permit G2B digital platform, revealed that the activities supporting the digitalization of business entry, operation, and exit procedures, along with the simplification of regulatory processes and adoption of hardware and software in compliance with Ukraine energy efficiency standards, will significantly reduce carbon-intensive activities, such as travel and paper use associated with administrative compliance, resulting in 9,945 tCO_2 (over 10 years) fewer emissions and equivalent to a 22.4 percent reduction from the baseline scenario. The GHG analysis was conducted by the World Bank task team in August 2024, and validated by the GHG Team of the World Bank in September 2024.

[25] See definition of green sectors in the Climate Annex (Annex 9).

[26] The new FDI Strategy will focus on attracting high-quality FDI in priority sectors aligned with near/re-shoring trends and the EU's green transition plans, such as energy, critical minerals, automotive, and electronics, particularly in high-value-added segments. Examples include renewable energy projects in the energy sector, sustainable mining and recycling in critical minerals, electric vehicle production and efficient public transportation in the automotive sector, and energy-efficient devices and recycling in the electronics sector, contributing to both climate change mitigation and adaptation.

[27] The Diia.Business Portal 2.0 will consolidate and upgrade two different platforms (https://business.diia.gov.ua/ and https://export.gov.ua/) into one, and offer both informational and transactional services progressively ranging from business initiation to closure services, including direct links to the E-permit system, and currently covering 30 services.

adoption of a strategic framework for investment facilitation with a green economy focus, by targeting potential investment leads in green sectors (see footnote 19). Financing for hardware, software, system installation and upgrading costs (meeting energy efficiency standards in Ukraine), advisory services, consulting technical expertise, and salaries of MoE and EEPO staff involved in the deployment of the Diia.Business Portal 2.0, upgrading aof the E-permit system, delivery of G2B services across all relevant platforms of the GoU, and design and launch of the new FDI strategy will support the implementation of the activities under this results area. Expected results under Results Area 2 will lead to the following outcomes: a) increased number of firms using the Diia.Business Portal 2.0 with associated benefits in terms of increased access to G2B digital services, reduction of administrative compliance burden (time, cost, resources and emissions savings), and increased transparency, b) increased number of firms using the E-permit system with associated benefits of reduction of administrative compliance burden (time, cost, resources, and emissions savings), and increased transparency, and c) increased potential investment leads as a result of better investment targeting to green sectors and aftercare associated with the new FDI strategy.

29. Result Area 3: SMEs Access to Export Markets enabled. This result area will support the GoU's effort to improve firms' export capacity and access to foreign markets. It will strengthen the institutional capacity and product offering of the new Export Credit Agency (ECA) and of the Entrepreneurship and Export Promotion Office (EEPO). It will also support the agenda of the GoU of harmonizing Ukrainian product quality, safety, energy efficiency, environmental, and overall sustainability standards with the EU. Key interventions include: 1) financing and delivery of the export promotion programs and business consulting services (online and through the Entrepreneurs Support Centers) of the EEPO, 2) adoption and implementation of the new ECA strategy, development of new risk insurance products as well as integrating environmental sustainability into ECA's policies and products[28], 3) financing and delivery of capacity building and technical assistance certification programs to enable SMEs' compliance with harmonized EU product standards and also sustainability standards as well as certification readiness[29]. Financing for grants, operational costs of export promotion, business consulting, and capacity building programs, advisory services, consulting technical expertise, and salaries of public officials involved in the administration and oversight of the programs of the ECA and the EEPO, and of the development of the new ECA strategy and risk insurance products, will support the implementation of the activities under this results area. Expected results under Results Area 3 will lead to the following outcomes: a) increased number of SMEs participating in export promotion programs and receiving business consulting services by the EEPO, with associated benefits in terms of potential export contracts, improved business practices and export readiness, b) increased access by SME exporters to export credit and war risk insurance provided by ECA, and c) increased number of firms certification-ready through completion of capacity building programs on EU harmonized standards and also sustainability standards.

Investment Project Financing

30. The IPF component aims at supporting the MoE in the implementation of the National Economic Strategy 2021-2030 and of the Ukraine Plan 2024-2027 as defined under the PforR Program. Thus, it will finance technical assistance for institutional and organizational strengthening, capacity building, consulting support, and knowledge transfer to enable the MoE, and relevant implementing agencies, to achieve sustainable change, and to have timely access to emerging regional and global experience. To this end, the IPF component of US$30 million (of which US$ 20 million are unfunded) will assist with the implementation of the Program through the following sub-components[30]: (i) operational support (project management and monitoring), (ii) targeted technical assistance and capacity building, (iii) IT Solutions in support of digitization and upgrading initiatives of the ECA, the MoE, and the EEPO, as well as creation of a digital investment platform for Ukraine's reconstruction including with a view of meeting energy efficiency standards in Ukraine, (iv) change

[28] See the Climate Annex (Annex 9) for further details.
[29] Certification readiness is defined as firms having successfully completed capacity building programs with the objective to have the certification be issued at a later stage.
[30] Civil servant salaries will not be covered under the IPF.

management focusing on external relations and outreach as well as CE activities (i.e. participatory M&E through policy dialogue platform & satisfaction survey). See Annex 7 for further detail.

31. The IPF component is complementary to the PforR and does not overlap with it. The IPF Component will provide financing that strengthens the MoE's and other implementing agencies (BDF, ECA, EEPO) capacity to plan, monitor, and implement reforms. As an illustration, the IT solutions covered by the IPF will primarily focus on 1) the creation of a digital investment platform, 2) the development of a digital dashboard for economic monitoring, analysis and impact assessments of the MoE's economic policies, 3) software upgrades for the Register of Investment Projects with Significant Investments. All these activities are complementary but different from a) the launch of the Diia.Business Portal 2.0 and b) full deployment of the E-permit G2B digital platform, covered under the PforR. Similarly, the PER activities financed by the IPF component entail the selection and contracting of external independent consulting services to conduct annual PERs according to the WBG methodology, while the PER activities under the PforR entail the actual implementation of the organizational, institutional, and design changes to the firm support programs covered by the operation. As such, the PER activities under the IPF component and PforR are complementary.

Program Boundaries

Table 3: World Bank Contribution to the Operation's Financing

Source	Amount (US$, Millions)	% of Total Program Cost
Program Cost	**2,744.80**	**98.9**
Program Financing	**2,294.8**[31]	**82.7**
International Development Association (IDA) Credit	300	**10.8**
International Bank for Reconstruction and Development (IBRD)	283	**9.0**
Counterpart Funding	711.8	**26.8**
Commercial Financing	1,000	**36.0**
Program Financing Gap	**450**	**16.2**
IPF Cost	**30**	**1.1**
IPF Financing	**10**	**0.4**
Ukraine Relief, Recovery, Reconstruction, and Reform TF	10	**0.4**
IPF Financing Gap	**20**	**0.7**
Total Operation Financing (PforR + IPF)	**2,304.8**	**83.1**
Total Operation Financing Gap	**470**	**16.9**
Total Operation (including Financing Gap)	**2,774.8**	**100**

[31] Includes USD 1 bn of commercial financing and excludes unconfirmed capital expenditures.

32. The PforR will be implemented over three years at an estimated total cost of US$2.7 billion. The Operation is planned for US$593 million including IBRD lending with credit enhancement from the Advancing Needed Credit Enhancement for Ukraine (ADVANCE Ukraine) Trust Fund supported by the Government of Japan (US$283 million) as well as Special Program for Ukraine and Moldova Recovery (SPUR) of the International Development Association (IDA) Crisis Facility for the PforR on regular IBRD terms (US$ 300 million), and US$10 million grant from the Ukraine Relief, Recovery, Reconstruction, and Reform Trust Fund (URTF) that support the IPF. This leaves a financing gap of US$450 million for PforR and US$20 million for the IPF needed to fully accomplish the operation's objective. The support for reform implementation in 2025 and 2026 of US$470 million (financing gap) is expected to be funded through future donor contributions in the form of guarantees and grants.

33. This project will use add-up capitalization to lower Ukraine's debt service burden through March 31, 2027. Add-up capitalization reserves an estimated amount of interest and commitment charges over the project implementation period from the overall loan amount. Ukraine's Ministry of Finance requested use of add-up capitalization for the Project (interest accruing and fees due under the terms of the loans) supported under the Japan's credit enhancement by letter on October 27, 2023. As such, the capitalized interest and charges will be paid out of the proceeds of the IBRD loan. Should the actual charges and interest accrued as up to the closing date exceed the reserved amount indicated in the legal agreement, Ukraine will be responsible for paying such additional charges and interest.

D. Program Development Objective(s) (PDO) And PDO Level Results Indicators

The Project Develpoment Objective is to improve the enabling environment for a sustainable private sector-led recovery in Ukraine.

- PDO Indicator 1: increased efficiency and ESG requirements of firm support programs, as measured by improved average PER score
- PDO Indicator 2: amount of private capital mobilized
- PDO Indicator 3: number of jobs created or preserved by firms participating in redesigned firm support programs, of which 40% for women
- PDO Indicator 4: number of firms benefiting from streamlined business regulation through G2B digital services
- PDO Indicator 5: volume of exports by beneficiaries of the redesigned firm support programs

E. Disbursement Linked Indicators and Verification Protocols

34. The Program is organized around three Results Areas (RA) and four Disbursement Linked Indicators (DLI). The DLIs are aligned with the PDO indicators. The DLIs present the principal way in which the associated PDO indicator will be achieved. Each DLI is broken down into milestones and targets for scalable results which trigger disbursements. The disbursements are calibrated such that higher amounts are linked to milestones that require more commitment and effort and/or have a greater impact on achieving PDO.

Table 4. Disbursement Linked Indicators

Result area 1: Improving efficiency of state support to SMEs, with a focus on green competitiveness
DLI 1: Improving efficiency of state support to SMEs, with a focus on green competitiveness
DLI 2: Enhanced compliance of SME financing programs with ESG requirements
Result area 2: Improving the Business Environment and G2B Digital Services
DLI 3: Simplified business regulation, including investment facilitation framework for the green economy

Result area 3: Enabling SMEs access to export markets
DLI 4: Enabled SMEs access to export markets

35. **The verification of each DLR will be carried out according to its nature and complexity.** DLRs 1.1, 1.2 (ii), 1.3, 2.2, 2.3, 3.1, 3.2, 3.4, 4.1, 4.3, 4.4, which involve data collection and field visits, will be verified by an Independent Verification Agency (IVA) according to the verification protocols. DLRs 1.2 (i), 2.1, 3.3, 4.2 which are supported by official documents, will be verified by national institutions and validated by the World Bank following the verification protocols. The verification protocols for each DLI are described in Annex 1. Climate change-related aspects of the DLIs/DLRs are described in detail in Annex 9. Further explanation of the context and policy rationale for the selection of each DLI is provided in the standalone Technical Assessment.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

PforR Component

36. **The PforR component would use a two-tiered structure each led by the Ministry of Finance (MoF) and the MoE.** In line with the National Legislation[32], MoF will manage overall Program coordination as the coordinating agency, collaborating closely with the MoE which will act as the executing agency for policy implementation in the enterprise sector. To enhance coordination as well as the quality, timeliness, and relevance of Program activities, a Steering Committee comprising representatives from the MoF and MoE as well as representatives from other implementing agencies will be established no later than one month after project effectiveness according to the Operational Manual (OM). The OM shall be developed and adopted not later than one month after the effective date in a manner and substance satisfactory to the Bank.

37. **As the coordinating agency, MoF will be responsible for conducting Program supervision, and coordination with the Bank.** The MoF will be responsible for i) overall supervision including the facilitation of strategic decision-making and monitoring the Program's execution and results**,** ii) ensuring that the executing agency (MoE) has the necessary resources to achieve the Program's results, which will be prepared and approved following the budget procedures for ministries in the GoU and iii) coordinating disbursements with the Bank after the achievement of DLIs and DLRs, as established in the legal agreement.

38. **As the executing agency, MoE will be responsible for Program execution, including the achievement and reporting of DLRs.** The MoE will manage project, fiduciary, environmental and social aspects of the government expenditure program. Key processes include: (i) maintaining suitable fiduciary procedures and regulations for PforR financing, as agreed with the Bank; (ii) facilitating the Program flow of funds from the budget through existing channels (including intermediary agencies) to beneficiaries; (iii) verifying results according to verification protocols; (iv) arranging internal and external audits; (v) and acting as the contact representative with the World Bank on Program implementation. The responsible Deputy Minister of Economy, with support of the IU working under the IPF component will be responsible for coordination and monitoring of DLIs and DLRs, until they are achieved and reported.

IPF component

39. **The MoE will be the implementing agency for the IPF component.** The responsible Deputy Minister of Economy will oversee the overall IPF component implementation, and the MoE IU will play a key role supporting

[32] Resolution of the Cabinet of Ministers "*On the Procedure for Preparation, Implementation, Monitoring, and Completion of Economic and Social Development Projects Supported by International Financial Organizations*" No. 70 dated January 27, 2016, with amendments.

implementation, including procurement, financial management, environmental and social (E&S) aspects and monitoring and evaluation. The IU will consist of MoE staff members and external consultants. Internal IU members will be nominated from the Department for Attraction of Investment and Engagement with International Organizations (which coordinates the implementation of RISE), Financial and Economic Activity Department (to provide oversight of financial and procurement aspects), and Department of Strategic Planning and Macroeconomic Forecasting (to help conduct monitoring and evaluation, data collection, and impact assessment of RISE). In addition to that, MoE will hire external consultants (Financial Specialist; Procurement Specialist; ESG Specialists) financed by this component. The IU will be set up not later than one month after project effectiveness. The IPF component will imply additional resources for the MoE that will follow standard IPF arrangements with traditional disbursement methods, where the Program will finance eligible expenditures. The Bank's E&S Framework for IPF will apply to the IPF activities.

B. Results Monitoring and Evaluation

40. **Monitoring and Evaluation (M&E) capacity at MoE is established and continuously improving, including as part of the capacity building component under the PforR Operation.** The MoE will be responsible for M&E under the results framework, with inputs from implementing agencies as needed. The MoE will produce semiannual Program Status Reports based on the results framework and other information related to Program implementation. These semiannual Program reports will provide the basis for the World Bank implementation support missions and midterm reviews. The PforR will build upon and strengthen the MoE's existing statistical systems and M&E arrangements. Given the use of prior results, advances, and the overall short timeline for disbursement, it is expected that MoE will require support from a third party to conduct monitoring. Through the IPF component, the Operation will further support development of M&E capacity through development of Program monitoring tools.

41. **The Operation will also support participatory M&E to promote citizen engagement and beneficiary feedback on activities and results.** In line with the DLIs, the Operation will support regular and frequent engagement of SMEs in consultations and dialogue including through creation of a policy dialogue platform with the SME community. An accompanying respective beneficiary feedback indicator (CE indicator) will measure the "share of SMEs satisfied with the consultative processes established by the project." The indicator will be measured through a satisfaction survey distributed among consultation participants. Citizen engagement and beneficiary feedback will support M&E under the Operation.

C. Disbursement Arrangements

42. **Disbursement projections are based on the achievement of the DLRs, some of which will be prior results.** The World Bank can disburse against DLRs achieved between the date of the Program concept review (April 30, 2024) and the date of signing the legal agreement. The advance and prior results will together constitute 30 percent or US$165 million, with prior results comprising 6.4 percent or US$35 million. DLRs 1.1, 2.1, 3.1, 4.1 and 4.2 will be financed by IBRD lending with credit enhancement from the Advancing Needed Credit Enhancement for Ukraine (ADVANCE Ukraine) Trust Fund supported by the Government of Japan (US$283 million) while DLRs 2.2, 3.2, 3.3 and 4.3 are financed by SPUR of the International Development Association (IDA) Crisis Facility for the PforR on regular IBRD terms (US$ 300 million). DLRs 1.2, 1.3, 2.3, 3.4 and 4.4 are unfunded. For 2024, one DLR prior result has already been met (DLR 4.2). Out of 5 DLRs envisaged for 2024, 2 are envisaged to be verified by the World Bank. Hiring of the independent verification agency through complementary donor financing is being explored to facilitate speedy verification of DLRs 1.1, 3.1 and 4.1. An advance totaling US$130 million could be provided to help kick start reform activities and mitigate any disbursement bottlenecks given that US$250 million are expected to be disbursed during the 2024 calendar year.

Table 5: Overview of DLIs and DLRs

DLIs	DLRs	Allocation (US$ million)
Results Area 1. Improving efficiency of state support to SMEs, with a focus on green competitiveness		
DLI 1. Improving efficiency of state support to SMEs, with focus on green competitiveness	**DLR 1.1:** USD 200 mln loans issued under the redesigned[33] 5-7-9 credit program (40 mln of which are loans to female headed firms) (scalable) *Expected completion date November 30, 2024*	100
	DLR 1.2: (i) improved average PER score of the redesigned firm support programs[34], and (ii) 20,000 beneficiaries received financing and/or services from redesigned firm support programs (scalable) *Expected completion date: November 30, 2026*	0 (allocation 50% of amount per sub DLR)
	DLR 1.3: 40,000 jobs created or preserved by firms participating in redesigned firm support programs, of which 40% for women (scalable) *Expected completion date: November 30, 2026*	0
DLI 2. Enhanced compliance of SME financing programs with ESG requirements	**DLR 2.1:** BDF's Supervisory Board adopted its Environmental and Social Policy establishing principles and commitments of the BDF and PFIs towards sustainable and responsible investment practices in alignment with environmental, social, and occupational and community health & safety requirements. *Expected completion date: November 30, 2024*	45
	DLR 2.2: At least 20 banks accounting for 90 percent of the overall 5-7-9 lending volume adopted Environmental and Social Management System (scalable) *Expected completion date: November 30, 2025*	100
	DLR 2.3: 30% increase of SMEs financed under the 5-7-9 program in compliance with ESG requirements (scalable) *Expected completion date: November 30, 2026*	0
Results Area 2. Improving the Business Environment and G2B Digital Services		
DLI 3. Simplified business regulation, including investment facilitation framework for the green economy	**DLR 3.1:** Diia.Business Portal 2.0 launched (accessible online to users) with functionalities in compliance with the TORs of the EEPO *Expected completion date: September 30, 2024*	30
	DLR 3.2: (i) 500,000 unique visits of the Diia.Business Portal 2.0, and (ii) 90,000 registered accounts (scalable) *Expected completion date: November 30, 2025*	100 (allocation 50% of amount per sub DLR)
	DLR 3.3: FDI Strategy adopted by the Cabinet of Ministers, including (i) focus on the green economy, and (ii) plans to modernize the investment policy and promotion framework, including capacity building of the Investment Promotion Agency.[35] *Expected completion date: November 30, 2025*	10
	DLR 3.4: 100,000 applications submitted via the e-permit system.[36] (scalable) *Expected completion date: November 30, 2026*	0
Results Area 3. Enabling SMEs access to export markets		
DLI 4. Enabled SMEs access to export markets	**DLR 4.1:** 3,000 SMEs received business consulting services (online or face-to-face) from EEPO (scalable) *Expected completion date: November 30, 2024*	70

[33] Redesigned firm support programs are defined as all programs that have been formally amended since January 1st, 2024. See verification protocol.
[34] Detailed content, requirements, and methodology of the PER are specified in the verification protocol for DLR 1.2.
[35] Detailed content and requirements of the FDI Strategy are specified in the verification protocol for DLR 3.3.
[36] Benefits for firms usually associated with the use of e-permit systems relate to reduction of administrative compliance burden (time, cost, resources, and emissions savings), and increased transparency of G2B interactions and procedures.

	DLR 4.2: New ECA strategy adopted providing for broadening of ECA's product offering (including war risk insurance), integrating environmental sustainability into ECA's policies and products as well as for development of a robust M&E framework. *Completion date: June 26, 2024*	5
	DLR 4.3: 10 export-oriented projects of SMEs covered by ECA including for war risk in line with new ECA strategy (scalable) *Expected completion date: November 30, 2025*	90
	DLR 4.4: Representatives of 500 firms completed capacity building programs on the EU harmonized product standards and also sustainability standards (scalable) *Expected completion date: November 30, 2026*	0
	TOTAL	**550**[37]

43. **Disbursements will be contingent upon the MoE furnishing evidence satisfactory to the World Bank that it has achieved the respective DLRs, and that these have been verified by the verification agency as specified in the verification protocol.** Application for withdrawal from the World Bank's financing account of amounts allocated to individual DLRs and calculated in accordance with the relevant formula will be sent to the World Bank any time after the World Bank has notified the MoE in writing that it has accepted evidence of achievement of the DLRs and the amount eligible for payment. The withdrawal amount against the DLRs achieved will not exceed the amount of financing allocated by the World Bank for the specific DLRs.

D. Capacity Building

44. **The IPF component will support the implementation of the PforR through key capacity-building activities**. The component will finance (i) operational support including operating costs for the PforR management as well as the IVA, (ii) capacity building of key implementing agencies (MoE, MoF, BDF, ECA) related to program implementation and monitoring and evaluation as well as implementing ESG requirements, (iii) IT solutions in support of digitization of programs, (iv) operational costs and capacity building for communications and work with internal and external stakeholders (see Annex 7). The IPF component will be financed from the Ukraine Reconstruction Trust Fund with an initial budget of US$ 10 million, with a current financing gap US$ 20 million.

45. **The World Bank will coordinate closely with other development partners to promote a consistent approach and efficient allocation of technical assistance resources for private sector development.** In addition to IFC, key partners providing technical assistance for policy/regulatory reforms and institutional capacity building include the EU, other multilateral organizations (e.g., OECD, UNIDO), as well as the bilateral cooperation agencies of several countries (e.g., Germany, Switzerland, United Kingdom). Several of these institutions also are also implementing or developing new programs to provide financial and technical support to firms directly or through financial institutions, with a focus on SMEs.

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

46. **As detailed in Annex 2, the Program's Technical Assessment confirmed that the Program is highly relevant and technically sound.** The Program directly addresses the urgent need to strengthen the private sector's growth prospects to support Ukraine's recovery. It supports important reorientations of the Government of Ukraine (GoU)'s support to the private sector in line with international best practices, including a gradual strategic shift from short-

[37] US$ 250 million in 2024 and US$ 300 million in 2025, US$ 450 million remains unfunded.

term stabilization towards resilience, growth and sustainability, as well as better targeting. The Program is aligned with the GoU's focus on private sector development as a key pillar of its strategy for reconstruction and sustainable growth, as well as with the World Bank and IFC's strategic priorities in the country. The Program supports a strong set of complementary GoU initiatives, including both financial and non-financial support, as well as regulatory and institutional reforms, addressing several key constraints to private sector recovery and growth, with a focus on SMEs' resilience and competitiveness. The Program is well-positioned to support the GoU's ongoing efforts to improve the design of its business support programs to maximize impacts and ensure the efficient use of public funds, including by supporting implementation of recommendations that will come from the ongoing Policy Effectiveness Review (PER). Finally, the general legal, regulatory and institutional environment is broadly adequate to implement the Program, and the GoU has shown strong commitment to continue advancing structural reforms with the support of development partners. As discussed above, all key institutions implementing business support programs will be involved in the program, which will support capacity building efforts.

47. The Program is expected to generate positive net economic returns. Overall, considering the full Program cost (US$1.7 billion, plus US$1 billion of PCM) and pessimistic estimates of the expected sales, investment generated and exports it will enable, the estimated NPV amounts to US$2.8 billion over a 5-year horizon, using a 6 percent discount rate, and an economic internal rate of return (EIRR) of 67 percent. A sensitivity analysis shows that a conservative scenario would result in a NPV of US$5.8 billion and an optimistic one could result in an NPV of up to US$8.5 billion. See Annex 10 for further detail.

48. The PforR Operation is aligned with the goals of the Paris Agreement on both Mitigation and Adaptation. It addresses mitigation risks by focusing on reducing GHG emissions and enhancing resource efficiency across multiple sectors. In Results Area 1, the project will fund energy-efficient technologies and renewable energy solutions in SME support programs, reducing GHG emissions. It will also require banks in the 5-7-9 Program to maintain environmental and social management systems, promoting sustainability and green competitiveness. Results Area 2 focuses on digital services and regulatory simplification, with the E-permit G2B platform streamlining processes, reducing resource consumption, and lowering emissions. Energy efficiency upgrades for digital infrastructure and a green-focused FDI Strategy will further reduce emissions. Results Area 3 aims to enhance SMEs' access to export markets by aligning with EU sustainability standards, promoting sustainable practices, and reducing GHG emissions in exports.

49. The PforR Operation also addresses adaptation risks by enhancing resilience against climate variability and extreme weather conditions. In Results Area 1, the institutionalization of a regular Policy Effectiveness Review (PER) and program recalibration mechanisms will help improve the performance and sustainability of SME support programs and by continuously assessing them against best practices, facilitating their transition towards more sustainability practices. Additionally, mandating banks participating in the 5-7-9 Program to develop and maintain environmental and social management systems ensures compliance with international sustainability standards, promoting resilience and long-term viability of supported SMEs. Results Area 2 aims to improve the business environment and digital services, making them more resilient to climate-related disruptions. The digitalization of G2B services, including the Diia.Business Portal 2.0, improves the efficiency and resilience of business operations. By targeting investment leads in green sectors, the Operation promotes climate-resilient investments that are less vulnerable to climate risks. Additionally, the IT solutions under the IPF component of this operation will take into account climate hazards and be designed to be resilient to them, thereby ensuring continuous operation during adverse weather conditions and reducing the risks to acceptable levels. For Results Area 3, the focus on harmonizing Ukrainian SMEs with EU sustainability standards ensures that these businesses are more resilient to climate-related trade disruptions and enhances their competitiveness in the EU market. By making SMEs compliant with EU standards, the Operation reduces their exposure to climate risks and promotes sustainable, resilient business practices.

B. Fiduciary

50. The MoE capacity will continue to be strengthened for implementation of both PforR and IPF parts of the project, as prior experience of MOE is limited to partial implementation of a small grant. MOE will create a IU that will consist of existing MOE staff as well as hired consultants to complement existing capacity. MOE's IU will be headed by MOE deputy Minister and will coordinate all project activities for the PforR part of the project, in close coordination with relevant MOE departments and subordinated institutions and other agencies that are involved in implementation of the budget expenditure program. MOE's IU will also be in charge in carrying out fiduciary functions under the IPF component of the project. The OM will span both the PforR and IPF parts of the project and will need to be approved by MOE by one month after effectiveness.

Financial Management

51. The PforR will be implemented largely using existing Public Financial Management systems of MoE and its subordinated institution BDF as well as other implementing agencies. The PforR includes existing budget lines managed by MoE centrally and through BDF, EEPO, and the Ministry of Digital Transformation. The budget allocation mechanisms at MOE and other institutions have been in place in the past years and have largely demonstrated their success in channeling funding, as well as reliability of accounting and reporting on the use of funds. The financing of BDF expenditure program, which constitutes about 65% of the total Program Expenditure Framework, has a particularly strong track record, and respective processes and procedures for its implementation were reviewed during implementation of another World Bank financed project. BDF subordination changed starting from 2024 from previously reporting to MOF to now reporting directly to MOE. However, other processes and procedures of BDF remained unchanged.

52. Project specific reporting and auditing arrangements will be required. Existing external audit arrangements were assessed as insufficient in their frequency and scope, and therefore a separate Program financial audit will be required on an annual basis, and can be carried out by either Accounting Chamber or private auditors. In addition, MoE will be in charge of manually preparation of Program financial statements, including gathering information from BDF as well as the other implementing agencies and manual consolidation of the annual financial reports.

53. PforR disbursements will be made on the achievement of results that are specified by the DLIs. Disbursements related to the achievement of the DLIs will be made to a State Treasury account indicated by the Government. To achieve the Program's results, the GoU will undertake activities and actions identified in the Program Expenditure Framework. GOU will follow agreed upon arrangements to ensure that a credible mechanism is in place for monitoring, measuring, and verifying the achievement of the DLIs. These are outlaid in PAD and will be further detailed in the OM, as necessary. Disbursements for the IPF Component will be made with the use of regular disbursement mechanisms, which will be laid out in the Disbursement and Financial Information Letter (DFIL).

Procurement

54. Implementation of the PforR will rely on and follow the GoU procurement systems and arrangements established within MoE and its subordinated institution BDF as well as other agencies. The IFSA shows that there are no procurement expenditures under the Program that are mandated to follow national Public Procurement Law (PPL) and use ProZorro. The only potential exception is related to potential participations of SOEs and Utility Companies of local administrations that may be selected as beneficiaries of the programs to be financed under the PforR. In this case, the PPL and use of ProZorro will become obligatory and will follow procurement bidding, evaluation, and contract management processes established by the national legislation. This provides reasonable assurance that the Program will achieve the intended results through its procurement processes and procedures. Procurement of equipment, machinery, goods and materials by SMEs under the support SMEs expenditure progarms is co-financed by participants and is regulated by an ad hoc resolution of the GoU that establishes the procedure for each calendar year.

55. Procurement Exclusions. No potential high-value contracts are identified under the Program. Based on the preliminary findings, the proposed Program boundary is not expected to finance any contract at or above prevailing Operations Procurement Review Committee thresholds.

56. The procurement envisaged under the IPF component to finance technical assistance to MoE and strengthen project management includes Goods and Services. A simplified Project Procurement Strategy for Development (PPSD) and initial Procurement Plan have been prepared by MoE. Preparation of a detailed PPSD and procurement plan is deferred to the implementation stage. The Program will not finance civil works under the IPF component. The procurement of goods and non-consulting services will be conducted through the national e-procurement system Prozorro, which has been assessed by the World Bank and found acceptable for procurement of goods, works, and non-consulting services within for World Bank-financed projects.

C. Environmental and Social

57. The environmental risks of the Program are rated Substantial (PforR component). The Program is expected to have a number of positive environmental effects resulting from enhancing green competitive policies (such as adoption of ESG requirements) for financial institutions that support SMEs. The main potential negative environmental impacts are associated with the effects of business activities of SMEs in diverse sectors across the country supported by the Program. These activities will have potential environmental risks and impacts related to: (i) construction as well as operation-related pollution (including air, water, soil pollution; waste and debris management) and resources utilization; (ii) potential generation of e-waste (iii) biodiversity impacts and cultural heritage impacts, and (iv) OHS and community health and safety. While the scale of business activities of SMEs is deemed relatively limited, the activities pertaining to the program ‘Government support to investment projects with significant investments (Investnanny)’ and program “State incentives for creation of industrial parks” can result in significant environmental risks and impacts and require diligent handling. Therefore, an exclusion list has been developed and included in the legal agreement to clarify eligible activities/projects for Bank funding and make it legally binding and enforceable.

58. While some implementing agencies have operational experience with WB E&S policies/standards under IPF and PforR (such as MoF, and BDF), the E&S systems of key implementing agencies (such as MoE and ECA) are broadly limited and nascent. The ESSA has assessed the capacity of relevant institutions in addressing potential E&S risks and impacts and proposed mitigation measures to address identified gaps which will be integrated as part of DLIs/verification protocols and/or PAPs as well as in the OM.

59. The social risks of the Program are rated Substantial (PforR component). The Program will have positive social effects, in particular the creation of job opportunities in SMEs, which account for over 80 percent of private sector jobs, and improved labor and working conditions in such SMEs through the enhanced E&S risk management and monitoring systems of the financial institutions. While the scale of business activities of SMEs is deemed relatively limited, the Program will ensure to exclude activities and expenditures with significant adverse social impacts (for example, significant land acquisition and economic and physical displacement (including informal land/resource users) or areas with significant war hazards in areas under the control of the government). The ESSA has assessed the magnitude of these potential social risks and the capacity of relevant institutions in addressing such risks, which will inform the gap filling measures.

60. An Environmental and Social Systems Assessment (ESSA) has been prepared for the PforR Program in accordance with paragraph 9 of Section III of the PforR Policy and the World Bank PforR Directive. To prepare the ESSA of the proposed Operation, the World Bank assessed the MoE’s and other implementing entities’ E&S systems by analyzing available documentation and conducting working sessions with main stakeholders, as well as applicable national legislation and practices. To further inform its development, the ESSA has been consulted with a wider range of relevant stakeholders and interested parties. Due to the implications of martial law, limited in-person consultations are possible; as such, online consultations were the main consultation modality.

61. The Environmental and Social Risk Rating for the IPF is considered Moderate. The IPF component will provide the Government with TA activities (Type 2 and 3 TA activities). The potential project-related E&S risks and impacts from such TA activities are not likely to be significant. More details are provided in the Appraisal stage E&S Review Summary (A-ESRS).

62. Grievance Redress. Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance mechanism or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit https://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, visit https://accountability.worldbank.org.

Gender

63. Female entrepreneurship is critically important in economic development contributing to employment, growth, and innovation in addition to providing income. Female entrepreneurship is also key to enhancing Ukraine's ability to rebuild and recover. Data suggests that female-headed / owned firms are an important force in Ukraine. However, they do face disproportionate barriers hindering their growth, and thus contribution to the economy.[38] These barriers have been further amplified since February 2022. The PforR addresses some of the barriers highlighted above through facilitating access to redesigned firm support programs (RA #1). It is expected that the redesign of the 5-7-9 program will increase the volume of loans (i.e. private capital mobilized) provided to female headed firms from 20 to 25 percent by 2027 (PDO indicator 2, intermediate results indicator), thus bridging the gap between the pre-war rates of access to finance for male-headed firms (25 percent) and female-headed firms (8 percent). Improved gender targeting on selected programs will be achieved through collaborations with women's business associations to conduct targeted outreach campaigns to identify and reach out to female headed firms to inform them about the program offerings and the application process, gender-lens analysis of program data (including gender-disaggregated assessments of regulatory constraints to businesses and priority design features of programs) to better understand the gender-specific barriers and inform product design, and potentially developing a dedicated window of financing for women-led firms where viable (supported by the IPF component), recognizing that women are more vulnerable to climate change and the ongoing situation.

[38] Between early 2023 through November, 36,892 individual entrepreneurs have been registered, 51% of them being women (UN Women, 2023), however, they face considerable and disproportionate obstacles including access to training, grants, loans, and public procurement contracts, to name a few (Kyiv School of Economics, 2024). This is coupled with the fact that even before the February 2022, both male and female managers identified access to finance as a "highly or somewhat" obstacle to doing business in Ukraine. According to the 2019 Enterprise Survey, 25 percent of male managed enterprises had a bank loan/or line of credit compared to 8 percent for female managed firms. Rural women in particular had cited amongst others lack of trust in credit institutions, lack of collateral and high interest rates, as reasons for not applying for credit.

64. Recent evidence suggests that women-led firms were hit harder by the ongoing situation compared to men-led businesses.[39] The ongoing situation had differential impacts on firms depending on the gender of their manager (CEO). Controlling for several pre-February 2022 characteristics (such as firms' level of assets, level of sales, firm size, sector, region) as well as the level of conflict intensity in the respective year, financial records data from over 100,000 firms reveals that sales dropped more for women-led businesses between 2021 and 2022 and recovered slower in the subsequent year, than for male-led businesses. Also, the share of firms that exited the market was slightly higher amongst female-led CEOs, and female-led firms have had systematically less access to finance between 2021 and 2023 (with a decreasing trend over time). According to a World Bank survey of 2023, firms with female CEOs had a higher likelihood to fall into arrears.

Climate Change

65. Climate Co-Benefits and Paris Alignment. **The range of targeted activities across different areas supported by the PforR contribute to climate change mitigation and adaptation.** From policy alignment and governance reforms to program optimization and ensuring broad engagement in sustainability initiatives, these efforts collectively emphasize the critical importance of adopting integrated strategies. This includes enhancing SME financing in line with ESG requirements, which are vital for promoting sustainable business practices and bolstering resilience against climate impacts. Furthermore, regulatory reforms and the facilitation of investments in green technologies not only aim to reduce the environmental footprint of businesses but also enhance their capacity to adapt to evolving environmental standards and market demands. Additionally, improving trade finance, harmonizing standards with the EU, and supporting exporters with initiatives like the ECA and new insurance mechanisms play a pivotal role. These measures not only aid in mitigating climate change by promoting exports that are environmentally sustainable and less carbon intensive but also assist Ukrainian exporters in adapting to the dynamic sustainability standards and demands of the global market, underscoring a multifaceted approach to tackling climate challenges while ensuring economic resilience and sustainability.

66. The Project is consistent with Ukraine's NDC goals, national climate action strategies and plans. The project aligns with Ukraine's updated NDC which prioritizes energy efficiency, the development of renewable energy sources, and a substantial reduction in GHG emissions by 2030. It supports these objectives through initiatives such as enhancing SME financing in line with ESG requirements, fostering environmental and social standards in Ukrainian financial institutions, adopting an institution-wide Environmental and Social Policy, mandating environmental and social management systems for banks in the 5-7-9 Program, facilitating green economy investments, and harmonizing Ukrainian energy efficiency, environmental and overall sustainability standards with the EU, which are pivotal for a green, export-oriented, private sector-led recovery. These strategies are essential for mitigating climate impacts by promoting sustainable industry practices and reducing greenhouse gas emissions across key sectors. The project is also aligned with Ukraine's Long-Term Strategy for Low Carbon Development, which aims to decrease greenhouse gas emissions by fostering sustainable industrial practices and clean technologies. Furthermore, adherence to Ukraine's National Adaptation Plan is ensured by integrating resilience-enhancing strategies such as the use of green technologies, energy efficiency improvements, the facilitation of investments in adaptive and resilient infrastructure, along with the implementation of green competitiveness principle. These initiatives collectively prepare Ukrainian SMEs for sustainable operations and help them adapt to evolving environmental standards, market demands and increase their resilience to future climate impacts.

Citizen Engagement

67. The Operation will also promote citizen engagement and beneficiary feedback on activities and results. In line with the DLIs, the Operation will support regular and frequent engagement of SMEs in consultations and dialogue

[39] World Bank, "Ukraine: Firms through the War 2.0", June 2024.

including through creation of a policy dialogue platform with the SME community. An accompanying respective beneficiary feedback indicator (CE indicator) will measure the "share of SMEs satisfied with the consultative processes established by the project." The indicator will be measured through a satisfaction survey distributed among consultation participants. Citizen engagement and beneficiary feedback will support M&E under the Operation.

Private Capital Mobilization

68. The RISE PforR will contribute to maximize finance for development (MFD-E) and enable private capital (PCE) mobilization. The PforR Operation will enable significant amounts of private capital mobilization, through a combination of reforms and programs that will enable investment flows, both domestic and foreign, and directly mobilize private sector resources.[40] Overall, the PforR's investments, including its support for policy and regulatory reform and strengthening institutions and programs, will improve Ukraine's investment climate and have a catalytic effect on attracting private sector financing. The Program's economic analysis is in line with the MFD approach, and the recalibration efforts of firm support programs support by the operation aim to maximize private financing. See Annex 2 for further detail.

69. The 5-7-9 Program will contribute significantly to private capital mobilization (PCM) under the PforR Operation. Under the 5-7-9 Program (DLR 1.1) commercial financing for SMES will be leveraged by reducing the cost of borrowing (i.e., partial interest rate compensation). Commercial financing will be provided by over 40 participating financial institutions (PFIs) which are registered commercial banks operating primarily on commercial basis. The PCM estimate is projected to reach about US$1 billion during 2024-2026. There is no overlap with PCM attributed to the ARISE Project. A PDO indicator/DLR tracks progress on the value of private capital mobilized under the 5-7-9 program. About 55 percent of that PCM ($550 million) is expected from majority privately owned commercial banks (less than 50 percent government ownership) while 45 percent of that PCM ($450 million) is expected from five state-owned banks[41]. The Project's results framework includes an indicator to monitor the progress and ensure timely reporting on the PCM leveraged by the Project.

V. RISK

70. The Program's overall risk is assessed as "High." This rating reflects risks due to the ongoing situation, and the resulting widespread uncertainty in terms of security, capacity and changing needs that cannot be fully mitigated. The ratings for all risk categories mentioned below are based on the assessments of residual risks after considering proposed mitigation measures in a rapidly evolving context.

71. Political and Governance risk is "High." Broad-based governance shortcomings have remained persistent in Ukraine and limited government exposure to the PforR instrument raises the risks for implementation and institutional commitment needed to make this operation successful. Both political and governance risks are likely to remain high in the context of the ongoing situation as the crisis could cause the Government to limit the pursuit of key reform initiatives under the operation. To the extent possible, these risks are being mitigated by aligning the Operation's objectives with the recovery priorities outlined by the GoU.

[40] According to the RDNA3, the investment needs, and potential for private capital mobilization, for industry and commerce amount to USD 67.5 billion in the long term until 2033, and to USD 23.6 billion in the medium term until 2027, over the duration of the PforR Operation. The implementation of the redesigned firm support programs (DLR 1.2) and de-risking instruments (DLR 4.2 and DLR 4.3 on ECA) under the PforR have the potential to help catalyze up to US$5.5 billion of private investment needs for recovery and reconstruction in the short term according to the RDNA3. Source: *Ukraine - Third Rapid Damage and Needs Assessment (RDNA3): February 2022 - December 2023 (English).* Washington, D.C.: World Bank Group.

[41] Banks are established for business purposes and financially and managerially autonomous from national and local governments, including the state-owned commercial banks. They are subject to the same regulatory requirements as private banks.

72. **Macroeconomic risk is "High."** Budget shortfalls could lead to cuts in the expenditure program affecting program outcomes. Disruptions to economic activity and the resulting decline in tax revenue are constraining the fiscal space at a time when the spending pressure on GoU to provide essential services and repair damaged infrastructure is increasing. The evolution of the ongoing situation, which, if expanded in intensity or geographically, could lead to a renewed GDP contraction and additional fiscal needs resulting in a cut in the expenditure program. Similarly, shortfalls in external financing also risks impacting the program outcomes. To the extent possible, this risk is being mitigated by reliance on expenditures approved in the 2024 budget and planned inclusion of key initiatives in future budgets.

73. **Sector Strategies and Policies and Technical Design of Project risks are "Substantial."** The Program will mostly rely on the existing enterprise support programs from the state budget. These allocation mechanisms have been well established in channeling funding for SME support. However, in the current context risks remain substantial. These include governance and mis-allocation as well as cyber security risks. To mitigate these risks the planned yearly PER will play a key role in further redesigning and strengthening of the programs with a view to maximizing additionality in a fiscally constrained environment. Further emphasis will also be placed on cyber security with an assessment to be conducted as part of the IPF component.

74. **Institutional Capacity for Implementation and Sustainability is "Substantial**." Given the lack of experience with PforR in the MoE and the limited human capacity within the Ministry to implement the envisaged DLIs, there is a non-negligible risk of delays in the implementation of the Program. To mitigate these risks, the Program will support capacity building within the MoE to ensure that the necessary human resources are available to implement the activities envisaged under the program.

75. **Fiduciary risks are "Substantial."** The ongoing situation presents risks that the MoE and other agencies involved may not be able to carry out fiduciary functions. It is noted that BDF will be responsible for execution of about 65 percent of the total size of the Program. BDF demonstrated reasonable performance in other Bank financed projects. Other factors contributing to the Project's Substantial fiduciary risk rating are: (i) still limited ability of WB staff to carry out on-site supervision under Ukraine's present security situation, (ii) complex project design, including PforR and IPF components, with the PforR instrument being new for MoE and BDF and relatively new for Ukraine, (iii) currently limited capacity of MoE, (iv) several agencies involved in implementation, requiring their close coordination, and limited capacity of MoF to carry out its coordination role. Risk mitigation measures include: (i) hiring additional fiduciary staff in MoE and BDF, (ii) periodic training in FM, procurement, and disbursement for fiduciary staff, and (iii) use of the approved OM (iv) hiring external auditor to carry out Program audit as well as audit of an IPF component, (v) use of Independent Verification Agent.

76. **Environmental and Social risks are "Substantial."** The main potential negative environmental and social impacts are associated with the effects of business activities of SMEs in diverse sectors across the country. While the scale of business activities of SMEs is deemed relatively limited, the Program will ensure to exclude activities and expenditures with significant adverse environmental and social impacts. An exclusion list has been developed and included in the legal agreement to clarify eligible activities/projects for Bank funding and make it legally binding and enforceable. Additional risk mitigation environmental and social management measures are specified in the Program Action Plan and Environmental and Social Commitment Plan.

77. **Stakeholder risks are "High".** The operation involves several agencies, requiring effective interinstitutional coordination to achieve the PDO. Coordination is a particular challenge because government processes have been markedly fragmented thus far. Risks may also arise from the MoE coordination of priorities among various stakeholder groups and donors which could influence the design and implementation of RISE and consequently, the achievement of these objectives. The Bank is actively disseminating information and coordinating with stakeholders to foster alignment and reduce risks.

ANNEX 1. RESULTS FRAMEWORK MATRIX

Program Development Objective(s)

Improve the enabling environment for a sustainable private sector-led recovery in Ukraine.

PDO Indicators by Outcomes

Baseline	Closing Period
Improved efficiency of state support to SMEs, with a focus on green	
Improved average PER score of redesigned firm support programs (Number) DLI	
Jun/2024	Oct/2027
2.70	3
New or perserved jobs (Number of people) DLI	
Jun/2024	Oct/2027
0	40,000
➢New or preserved jobs for women (Number of people) DLI	
Jun/2024	Oct/2027
0	16,000
Private capital mobilized (of which 25 percent to female headed firms) (Amount(USD))	
Jun/2024	Oct/2027
0	1,000,000,000
Improved Business Environment and G2B Digital Services	
Number of firms benefiting from streamlined business regulation through G2B digital services (Number)	
Jun/2024	Oct/2027
0	150,000
SMEs access to export markets enabled	

Volume of exports by beneficiaries of the firm support programs (USD million) (Number)	
Apr/2024	Dec/2027
0	300

Intermediate Indicators by Results Areas

Baseline	Closing Period
Improving efficiency of state support to SMEs, with a focus on green competitiveness	
USD 200 mln loans issued under the redesigned 5-7-9 credit program, 40 mln of which are in loans to female headed firms (Amount(USD)) DLI	
Jan/2024	Nov/2024
0	200
Improved average PER score of redesigned firm support programs (Number) (Number)	
Jun/2024	Nov/2026
2.70	3.00
20,000 beneficiaries received financing and/or services from redesigned firm support programs (Number) DLI	
Jun/2024	Nov/2026
0	20,000
At least 20 banks accounting for 90 percent of the overall 5-7-9 program lending volume adopted Environmental and Social Management Systems (Percentage) DLI	
Jun/2024	Nov/2026
0	90
30 percent increase of SMEs financed under the 5-7-9 program in compliance with ESG requirements (Percentage) DLI	
Jun/2024	Nov/2026
0	30
BDF’s Supervisory Board adopted its E&S Policy establishing principles and commitments of the BDF and PFIs towards sustainable and responsible investment practices (Text) DLI	
Jun/2024	Nov/2024
No	Yes
Improving Business Environment and G2B Digital Services	
Diia.Business Portal 2.0 launched with functionalities in compliance with the TORs of the EEPO (Text) DLI	
Jun/2024	Nov/2024
no	yes
(i) 500,000 unique visits of the Diia.Business Portal 2.0, and (ii) 90,000 registered accounts (Number) DLI	
Jun/2024	Nov/2026
0	590,000

FDI Strategy adopted by the Cabinet of Ministers, including (i) focus on the green economy, and (ii) plans to modernize the investment policy and promotion framework (Text) DLI	
Jun/2024	Nov/2025
no	yes
100,000 applications submitted via the e-permit system (Number) DLI	
Jun/2024	Nov/2026
0	100,000
Number of new investment leads (Number)	
Jun/2024	Nov/2027
0	10
Enabling SMEs access to export markets	
3,000 SMEs received business consulting services (online or face-to-face) from EEPO (Number) DLI	
Jan/2024	Nov/2024
0	3,000
New ECA strategy adopted providing for broadening of ECA's product offering, integrating environmental sustainability into ECA's policies and products as well as development of a robust M&E framework (Text) DLI	
Jun/2024	Jul/2024
no	yes
10 export-oriented projects of SMEs covered by ECA including for war risk in line with the new ECA strategy (Number) DLI	
Jun/2024	Nov/2024
0	10
Representatives of 500 firms completed capacity building programs on the EU harmonized product standards and also sustainability standards (Number) DLI	
Jun/2024	Nov/2026
0	500
Citizen engagement	
Share of SMEs satisfied with the consultative processes established by the project (Percentage)	
Jun/2024	Oct/2027
0	85
Climate	
Number of green projects financed by redesigned firm support programs that contribute to climate change mitigation or adaptation (Number)	
Jun/2024	Nov/2026
0	6,000
Gender	
Percentage of loans provided under the 5-7-9 program to female headed firms (Percentage)	
Jun/2024	Oct/2027
20	25

Disbursement Linked Indicators (DLI)

Period	Period Definition
Prior Results	Prior Results
Period 1	First Year
Period 2	Second Year
Period 3	Third Year

Baseline	Prior Results	Period 1	Period 2	Period 3
1:USD 200 mln loans issued under the redesigned 5-7-9 credit program, 40 mln of which are in loans to female headed firms (Amount(USD))				
0		200		
0.00	0.00	100.00	0.00	0.00
DLI allocation		100.00	As a % of Total DLI Allocation	18.18%
2:Improved average PER score of redesigned firm support programs (Number)				
2.70				3.00
0.00	0.00	0.00	0.00	0.00
DLI allocation		0.00	As a % of Total DLI Allocation	0%
3:20,000 beneficiaries received financing and/or services from redesigned firm support programs (Number)				
0				20,000
0.00	0.00	0.00	0.00	0.00
DLI allocation		0.00	As a % of Total DLI Allocation	0%
4:New or perserved jobs (Number of people)				
0				40,000
0.00	0.00	0.00	0.00	0.00
DLI allocation		0.00	As a % of Total DLI Allocation	0%
➢ 4.1:New or preserved jobs for women (Number of people)				
0				16,000
0.00	0.00	0.00	0.00	0.00

DLI allocation		0.00	As a % of Total DLI Allocation	0%
5:BDF's Supervisory Board adopted its E&S Policy establishing principles and commitments of the BDF and PFIs towards sustainable and responsible investment practices (Text)				
No		Yes		
0.00	0.00	45.00	0.00	0.00
DLI allocation		45.00	As a % of Total DLI Allocation	8.18%
6:At least 20 banks accounting for 90 percent of the overall 5-7-9 program lending volume adopted Environmental and Social Management Systems (Percentage)				
0			90	
0.00	0.00	0.00	100.00	0.00
DLI allocation		100.00	As a % of Total DLI Allocation	18.18%
7:30 percent increase of SMEs financed under the 5-7-9 program in compliance with ESG requirements (Percentage)				
0				30
0.00	0.00	0.00	0.00	0.00
DLI allocation		0.00	As a % of Total DLI Allocation	0%
8:Diia.Business Portal 2.0 launched with functionalities in compliance with the TORs of the EEPO (Text)				
no		yes		
0.00	0.00	30.00	0.00	0.00
DLI allocation		30.00	As a % of Total DLI Allocation	5.45%
9:(i) 500,000 unique visits of the Diia.Business Portal 2.0, and (ii) 90,000 registered accounts (Number)				
0			500,000	
0.00	0.00	0.00	100.00	0.00
DLI allocation		100.00	As a % of Total DLI Allocation	18.18%
10:FDI Strategy adopted by the Cabinet of Ministers, including (i) focus on the green economy, and (ii) plans to modernize the investment policy and promotion framework (Text)				
no			yes	
0.00	0.00	0.00	10.00	0.00
DLI allocation		10.00	As a % of Total DLI Allocation	1.82%
11:100,000 applications submitted via the e-permit system (Number)				
0				200,000
0.00	0.00	0.00	0.00	0.00
DLI allocation		0.00	As a % of Total DLI Allocation	0%
12:3,000 SMEs received business consulting services (online or face-to-face) from EEPO (Number)				
0		3,000		
0.00	0.00	70.00	0.00	0.00

DLI allocation		70.00	As a % of Total DLI Allocation	12.73%
13:New ECA strategy adopted providing for broadening of ECA’s product offering, integrating environmental sustainability into ECA's policies and products as well as development of a robust M&E framework (Text)				
no	yes			
0.00	5.00	0.00	0.00	0.00
DLI allocation		5.00	As a % of Total DLI Allocation	0.91%
14:10 export-oriented projects of SMEs covered by ECA including for war risk in line with the new ECA strategy (Number)				
0			10 export-oriented projects of SMEs covered by ECA including for war risk in line with the new ECA strategy	
0.00	0.00	0.00	90.00	0.00
DLI allocation		90.00	As a % of Total DLI Allocation	16.36%
15:Representatives of 500 firms completed capacity building programs on the EU harmonized product standards and also sustainability standards (Number)				
0				0
0.00	0.00	0.00	0.00	0.00
DLI allocation		0.00	As a % of Total DLI Allocation	0%

Monitoring & Evaluation Plan: PDO Indicators by PDO Outcomes

Improved efficiency of state support to SMEs, with a focus on green	
Improved average PER score of redesigned firm support programs (Number)	
Description	Average PER score of private sector support programs in Ukraine containing 6 categories (1. Program Design, 2. Program Implementation Mechanisms, 3. Effective Resource and Management Quality, 4. Monitoring and Evaluation, 5. Systems Governance and Coordination among Programs, 6. Continuous Learning and Programs Recalibration) increased.
Frequency	Annual
Data source	MoE, EEPO, BDF, Innovation Development Fund documents and structured interviews
Methodology for Data Collection	MoE requests data from relevant departments implementing MoE firm support programs as well as from EEPO, BDF, Innovation Development Fund
Responsibility for Data Collection	MoE, EEPO, BDF, Innovation Development Fund
New or preserved jobs (Number of people)	
Description	Cumulative number of jobs created or maintained, including women, by firms participating in redesigned firm support programs
Frequency	Semi-Annually
Data source	MoE, BDF, EEPO
Methodology for Data Collection	MoE requests data from relevant departments implementing MoE firm support programs as well as from EEPO, BDF
Responsibility for Data Collection	MoE, EEPO, BDF
Private capital mobilized (Amount (USD))	
Description	Cumulative number of private capital mobilized via firm support programs providing financing and investment facilitation support
Frequency	Semi-Annualy
Data source	MoE, BDF, ECA, UkraineInvest
Methodology for Data Collection	MoE requests data from relevant departments implementing MoE firm support programs as well as from BDF, ECA and UkraineInvest
Responsibility for Data Collection	MoE, BDF, ECA, UkraineInvest
Improved Business Environment and G2B Digital Services	
Number of firms benefiting from streamlined business regulation through G2B digital services (Number)	
Description	Cumulative number of firms registered on the Diia.Busienss Portal 2.0 and cumulative number of firms submitting applications via the e-permit system
Frequency	Semi-Annually
Data source	MoE, EEPO
Methodology for Data Collection	MoE requests data from relevant departments administering the e-permit system as well as EEPO in charge of the Diia.Business Portal 2.0
Responsibility for Data Collection	MoE, EEPO
SMEs access to export markets enabled	
Volume of exports by beneficiaries of re-designed firm support programs (Number)	
Description	Cumulative volume of exports by beneficiaries of re-designed firm support programs.
Frequency	Semi-Annually
Data source	MoE, ECA, EEPO

Methodology for Data Collection	MoE requests data from relevant departments implementing MoE firm support programs as well as from ECA and EEPO
Responsibility for Data Collection	MoE, ECA, EEPO

Monitoring & Evaluation Plan: Intermediate Results Indicators by Results Areas

Improving efficiency of state support to SMEs, with a focus on green competitiveness	
USD 200 mln of loans issued under the redesigned 5-7-9 program (of which USD 40 mln to female headed firms)	
Description	Reflects volume of loans issued under the redesigned 5-7-9 program.
Frequency	Once
Data source	BDF
Methodology for Data Collection	BDF statistics, project progress reports
Responsibility for Data Collection	MoE, BDF
Improved average PER score of redesigned firm support programs (Number)	
Description	Reflects increases in the average PER score of private sector support programs in Ukraine containing 6 categories (1. Program Design, 2. Program Implementation Mechanisms, 3. Effective Resource and Management Quality, 4. Monitoring and Evaluation, 5. Systems Governance and Coordination among Programs, 6. Continuous Learning and Programs Recalibration).
Frequency	Annually
Data source	MoE, EEPO, BDF, IDF documents and structured interviews
Methodology for Data Collection	MoE requests data from relevant departments implementing MoE firm support programs as well as from EEPO, BDF, Innovation Development Fund
Responsibility for Data Collection	MoE, EEPO, BDF, IDF
20,000 beneficiaries receiving financing and/or services from redesigned firm support programs (Number)	
Description	Reflects cumulative number of beneficiaries receiving financing and/or services from redesigned firm support programs. Redesigned firm support programs are defined as all programs included in the Program of Expenditures of this operation and have been formally amended since January 1st, 2024.
Frequency	Semi-annually
Data source	MoE, EEPO, BDF, IDF
Methodology for Data Collection	MoE, EEPO, BDF, IDF reports, project progress reports
Responsibility for Data Collection	MoE, EEPO, BDF, IDF
40,000 jobs created or preserved by firms participating in redesigned firm support programs (Number)	
Description	Reflects cumulative number of jobs created or maintained, including women, by firms receiving financing and/or services from redesigned firm support programs.
Frequency	Semi-Annually
Data source	MoE, BDF, EEPO
Methodology for Data Collection	MoE requests data from relevant departments implementing MoE firm support programs as well as from EEPO, BDF
Responsibility for Data Collection	MoE, EEPO, BDF
BDF's Supervisory Board adopted its Environmental and Social Policy	
Description	Reflects adoption by BDF's Supervisory Board of overarching Environmental and Social Policy for all lending activities.
Frequency	Once
Data source	BDF
Methodology for Data Collection	BDF reports, project progress reports
Responsibility for Data Collection	BDF

At least 20 banks accounting for 90 percent of the overall 5-7-9 program lending volume adopted Environmental and Social Management Systems (Number)	
Description	Reflects increased number of banks operation under the 5-7-9 program having in place Environmental and Social Management Systems.
Frequency	Semi-annually
Data source	BDF
Methodology for Data Collection	BDF reports, project progress reports
Responsibility for Data Collection	MoE, BDF
30 percent increase of SMEs financed under the 5-7-9 program in compliance with ESG requirements (Percentage)	
Description	Reflects increased compliance of SMEs financed under the 5-7-9 program with ESG requirements.
Frequency	Semi-annually
Data source	BDF
Methodology for Data Collection	BDF reports, project progress reports
Responsibility for Data Collection	MoE, BDF
Improving Business Environment and G2B Digital Services	
Diia.Business Portal 2.0 launched, with functionalities in compliance with the TOR of the EEPO	
Description	Launch of the updated Diia.Business 2.0 portal merging two different platforms (https://business.diia.gov.ua/ and https://export.gov.ua/) into one
Frequency	Once
Data source	EEPO
Methodology for Data Collection	EEPO reports, project progress reports
Responsibility for Data Collection	MoE, EEPO
500,000 unique visits of the Diia.Business Portal 2.0 (Number)	
Description	Reflects cumulative number of visits on newly launched Diia.Business Portal 2.0
Frequency	Semi-annually
Data source	EEPO
Methodology for Data Collection	EEPO reports, project progress reports
Responsibility for Data Collection	MoE, EEPO
90,000 registered accounts with the Diia.Business Portal 2.0 (Number)	
Description	Reflects cumulative number of registered users of the newly launched Diia.Business Portal 2.0
Frequency	Semi-annually
Data source	EEPO
Methodology for Data Collection	EEPO reports, project progress reports
Responsibility for Data Collection	MoE, EEPO
FDI Strategy adopted by the Cabinet of Ministers, including (i) focus on the green economy, and (ii) plans to modernize the investment policy and promotion framework, including capacity building of the Investment Promotion Agency	
Description	Reflects adoption of a new FDI strategy by the Cabinet of Ministers, including (i) focus on green economy, and (ii) plans to modernize the investment policy and promotion framework, including capacity building of the Investment Promotion Agency. The strategy will: (i) develop evidence-based value propositions for investors, based on Ukraine's comparative advantages; (ii) identify key obstacles to enable investment at scale in these sectors; (iii) lay out concrete plans to lift these obstacles, with a focus on a) building the capacity of Ukraine's national Investment Promotion Agency to strengthen its technical expertise in priority FDI sectors, its investment promotion and outreach capacity, and its service offering as a single point of entry to support investors throughout the investment lifecycle, as well as streamlining administrative requirements and procedures for investment projects; b) articulating how different

	instruments will be used to help investors prepare commercially viable projects, mobilize long-term financing and de-risk projects; and c) identifying key horizontal and sector-specific reforms required to enable investment in priority sectors, and laying out a plan to implement them with adequate accountability mechanisms. The FDI Strategy will also support some of the five dimensions of a successful investment strategy, which are: i) macroeconomic stability and policy predictability, ii) a conducive investment climate, iii) a conducive legal and regulatory framework for investment, iv) effective investment promotion (retention and facilitation included), and v) effective linkages between domestic firms and incoming foreign investors.
Frequency	Once
Data source	CMU
Methodology for Data Collection	CMU resolution, Project progress reports
Responsibility for Data Collection	MoE
10 investment leads in line with the new FDI Strategy (Number)	
Description	Reflects progress in implementation of the new FDI strategy
Frequency	Semi-annually
Data source	UkraineInvest, MoE
Methodology for Data Collection	Project progress reports
Responsibility for Data Collection	MoE
200,000 applications submitted via the e-permit system (Number)	
Description	Reflects Increased usage of the fully deployed E-permit G2B digital platform by businesses which forms part of the wider de-regulation action plan
Frequency	Semi-annually
Data source	MoE
Methodology for Data Collection	MoE reports, progress reports
Responsibility for Data Collection	MoE
Enabling SMEs access to export markets	
3000 SMEs received business consulting services (online or face-to-face) from EEPO (Number)	
Description	Reflects increased usage of business consulting services (online or face-to-face) from EEPO
Frequency	Once
Data source	EEPO
Methodology for Data Collection	EEPO reports, project progress reports
Responsibility for Data Collection	MoE, EEPO
New ECA strategy adopted, providing for broadening of ECA's product offering (including war risk insurance), integrating environmental sustainability into ECA's policies and products as well as for development of a robust M&E framework.	
Description	Reflects ECA's strengthened strategic framework inlcuding with a focus on additonal product offereing, green competitiveness, and development of a robust M&E framework.
Frequency	Once
Data source	ECA
Methodology for Data Collection	ECA reports, project progress reports
Responsibility for Data Collection	MoE, ECA
10 export-oriented projects of SMEs covered by ECA including for war risk in line with the new ECA strategy (Number)	
Description	Reflects increased ECA coverage of export oriented projects of SMEs including for war risk
Frequency	Semi-annually
Data source	ECA
Methodology for Data	ECA reports, project progress reports

Collection	
Responsibility for Data Collection	MoE, ECA
500 firms completed capacity building programson EU harmonized product standards and also sustainability standards (Number)	
Description	Reflects increased number of firms certification-ready through completion of capacity building programs on EU harmonized standards
Frequency	Semi-annually
Data source	MoE
Methodology for Data Collection	MoE reports, project progress reports
Responsibility for Data Collection	MoE
Citizen Engagement	
Share of SMEs satisfied with the consultative processes established by the project	
Description	Reflects share of SMEs satisifed with the consultative processes established by the project
Frequency	Annually
Data source	MoE
Methodology for Data Collection	MoE reports, project progress reports
Responsibility for Data Collection	MoE
Climate	
Number of green projects financed by redesigned firm support programs that contribute to climate change mitigation or adaptation	
Description	Reflects number of green projects financed by redesigned firm support programs that contribute to climate change mitigation or adaptation
Frequency	Annually
Data source	MoE
Methodology for Data Collection	MoE reports, project progress reports
Responsibility for Data Collection	MoE

Verification Protocol Table: Disbursement Linked Indicators

1. Improving efficiency of state support to SMEs, with a focus on green competitiveness	
Formula	DLR 1.1: US$0.5 mln for every US$1,000,000 (with 20 percent to female headed firms) up to the total allocation. DLR 1.2: (i) US$0.75 mln for every 0.005 point increase in the average PER score of the redesigned firm support programs up to 50% of the allocation, and (ii) US$1.125 mln for every 500 beneficiaries up to 50% of the allocation DLR 1.3: US$0.45 mln for every 200 jobs created or preserved by firms participating in the redesigned firm support programs, of which 40 percent for women.
Description	DLR 1.1: US$ 200 mln of loans issued under the redesigned 5-7-9 credit program (US$ 40 mln of it in loans to female firms) exlcuding agricultural loans. Data will be collected as of January 1st 2024 following the amendments to resolution 28 adopted on January 26,2024 (CMU Resolution No. 91) as well as amendments adopted on April 30, 2024 (CMU Resolution No. 473). Female headed firms include both female-owned and female-managed firms. DLR 1.2: (i) improved average PER score of the redesigned firm support programs (from 2.7 to 3.0 average score). The PER assesses the performance of SME support programs along the following functional dimension: Program Design, Implementation Mechanisms, Effective Resource and Management Quality, Monitoring and Evaluation, Systems Governance and Coordination among Programs, Continuous Learning and Programs Recalibration, and (ii) 20,000 beneficiaries receiving financing and/or services from redesigned firm support programs. Firm support programs Firm support programs included are the E-Robota Business Support Grant Programs, the “Affordable Loans 5-7-9%” Program, the program “State incentives for creation of industrial parks” , the program ‘Government support to investment projects with significant investments (Investnanny)’, the “Support for Domestic Demand for Local Goods and Services” Program, the Innovation Development Fund grant program, the “Agricultural Machinery and Equipment Grants” Program, the export promotion, export readiness, certification and standards, and advisory programs of the Entrepreneurship and Export Promotion Office (EEPO). The PER will be conducted on an annual basis. Redesigned firm support programs are defined as all programs that have been formally amended since January 1st, 2024. DLR 1.3: 40,000 new jobs created or preserved by firms participating in redesigned firm support programs, of which 40 % for women. Firm support programs are intended as the ones included in the Program of Expenditures of this operation. All existing jobs for firms that received working capital loans will be considered preserved.
Data source/ Agency	DLR 1.1. BDF DLR 1.2 and DLR 1.3: BDF, MoE
Verification Entity	DLR 1.1, DLR 1.2 (ii), and DLR 1.3: IVA DLR 1.2 (i): review of documentary evidence
Procedure	DLR 1.1: The IVA will be provided with a consolidated report on the volume of loans provided under the redesigned 5-7-9 interest compensation program as of January 1st 2024. The IVA will also be provided with evidence of the number of female headed firms and their volume of loans. DLR 1.2 (i): The World Bank will be provided with a report including the average PER score of the redesigned firm support programs. DLR 1.2 (ii): The IVA will be provided with a consolidated report on the number of beneficiaries participating in the redesigned firm support programs from the date of their redesign entering into force. Firm support programs are intended as the ones included in the Program of Expenditures of this operation.

	DLR 1.3: The IVA will be provided with a consolidated report on the number of direct (full time equivalent) jobs created or preserved by firms participating in redesigned firm support programs. Firm support programs are intended as the ones included in the Program of Expenditures of this operation.
2. Enhancing compliance of SME financing programs with ESG requirements	
Formula	DLR 2.1: Total allocation is disbursed when achievement is verified. DLR 2.2**:** US$1.12 mln for every 1 percent of the overall 5-7-9 lending volume consisting of banks that adopted the Environmental and Social Safeguards Management Systems up to the total allocation DLR 2.3: US$1.5 mln for every 0.5 percent increase of overall SMEs financed under the 5-7-9 program in compliance with ESG requirements up to the total allocation.
Description	DLR 2.1: BDF's Supervisory Board adopted its Environmental and Social Policy. The E&S policy establishes the fundamental principles and commitments of the BDF and PFIs towards sustainable and responsible investment practices in alignment with environmental, social, and occupational and community health & safety requirements. The policy is applicable once adopted by the Board and relates to BDF's overall crediting activities. DLR 2.2: At least 20 banks accounting for 90 percent of the overall 5-7-9 lending volume adopted Environmental and Social Management Systems by their respective Supervisory Boards resulting in mandatory application. ESMS provide for clear environmental and social policy statement, effective procedures and adequate capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risks in a responsible manner. Before the respective bank adopts the ESMS it will be cleared by the BDF. DLR 2.3: 30 percent increase of number of SMEs financed under the 5-7-9 program in compliance with ESG requirements. The application of the ESMS will be included as a legally binding provision in the loan agreement between the banks and SMEs.
Data source/ Agency	DLR 2.1, DLR 2. 2 and DLR 2.3: BDF
Verification Entity	DLR 2.1: review of documentary evidence DLRs 2.2 and 2.3: IVA
Procedure	DLR 2.1: The World Bank will be provided with: (i) the formal decision of the Supervisory Board (or a management body that has such powers in accordance with the charter) and (ii) supporting evidence being the adopted Environmental and Social Policy DLR 2.2: The World Bank will be provided with: (i) the formal decision of the Supervisory Board of the respective participating bank, (ii) the adopted Environmental and Social Managemetn System as supporting evidence and (iii) evidence on the share in the overall 5-7-9 lending volume of that respective participating bank. DLR 2.3: The IVA will be provided with a consolidated report on compliance of SMEs participating in the 5-7-9 program with ESG requirements including a sample review of loan agreements.
3. Improving the Business Environment and G2B Digital Services	
Formula	DLR 3.1: Total allocation is disbursed when achievement is verified. DLR 3.2: (i) US$ 0.5 mln for every 5,000 unique visits of the Diia.Business Portal 2.0 up to the 50% of allocation, and (ii) US$ 1 mln for every 1,800 registered accounts up to 50% of allocation. DLR 3.3: Total allocation is disbursed when achievement is verified DLR 3.4: (i) US$0.9 mln for every 1,000 applications submitted via the e-permit system
Description	DLR 3.1: Diia.Business Portal 2.0 is launched. The Portal is considered launched when it goes-live meaning it is officially and formally available to users. The functionalities of the Portal are in compliance with the TORs issued by the EEPO. DLR 3.2: (i) 500,000 unique visits of the Diia.Business Portal 2.0, and (ii) 90,000 cumulative registered accounts. DLR 3.3: FDI Strategy adopted by the Cabinet of Ministers, including focus on the green economy. The FDI Strategy will include: (i) evidence-based business case and value proposition for investors in

	key priority sectors, (ii) identification of binding constraints based on investor feedback, and (iii) government plans to modernize the investment policy and promotion framework (including capacity building of the Investment Promotion Agency in charge) to a) provide direct support to investors to prepare, finance and de-risk projects, and b) implement required policy and regulatory reforms to enable private investment. DLR 3.4: 100,000 applications submitted via the e-permit system.
Data source/ Agency	MoE, EEPO
Verification Entity	DLR 3.1, 3.2, and 3.4: IVA DLR 3.3: review of documantary evidence
Procedure	DLR 3.1: The IVA will be provided access to the Diia.Business Portal 2.0 and will prepare a report confirming its functionality DLR 3.2: The IVA will be provided with a consolidated report on (i) number of unique visits of the Diia.Business Portal 2.0, and (ii) number of cumulative registered accounts DLR 3.3: The World Bank will be provided with: (i) CMU resolution adopting the FDI Strategy, (ii) the adopted strategy as supporting evidence. DLR 3.4: The IVA will be provided with a consolidated report on number of applications submitted via the e-permit system
4. Enabling SMEs access to export markets	
Formula	DLR 4.1: US$1.17mln for every 50 SMEs receiving business consulting services[42] (online or face-to-face) from EEPO up to the total allocation DLR 4.2: Total allocation is disbursed when achievement is verified. DLR 4.3: US$8.5 mln for every 1 export-oriented projects of SMEs covered by ECA including for war risk in line with new ECA strategy up to the total allocation DLR 4.4: US$1.8 mln for every 10 firms completing capacity building programs on EU harmonized product standardsand also sustainability standards, up to the total allocation
Description	DLR 4.1: 3,000 SMEs received business consulting services (online or face-to-face) from EEPO DLR 4.2: New ECA strategy adopted providing for broadening of ECA's product offering (including war risk insurance), integrating environmental sustainability into ECA's policies and products as well as for development of a robust M&E framework. DLR 4.3: 10 export-oriented projects of SMEs covered by ECA including for war risk in line with new ECA strategy DLR 4.4: representatives (employees, owners, managers, or any associates) of 500 firms completed capacity building programs on the EU harmonized product standardsand also sustainability standards
Data source/ Agency	DLR 4.1: EEPO, DLR 4.2 and DLR 4.3: ECA, DLR 4.4: MoE
Verification Entity	DLR 4.1, DLR 4.3, and DLR 4.4: IVA DLR 4.2: review of documentary evidence
Procedure	DLR 4.1: The IVA will be provided with a consolidated report on number of business consulting services received by SMEs (online or face-to-face) and provided as of January 1st, 2024, from EEPO. Consulting services are offered online and offline and last between 30 and 60 minutes. Areas of consultations include among others: Acquaintance, Taxation, Legal support, Systematization of business processes, Marketing, communications, Sales, Scaling, HR, Occupational health, Standards and technical regulations, Regulatory rules, IT and technologies, Women entrepreneurship, Social entrepreneurship. DLR 4.2: The World Bank will be provided with: (i) ECA Board protocol adopting the new ECA Strategy, (ii) the adopted strategy as supporting evidence.

[42] Consulting services are offered online and offline by consultants have a minimum of three years of experience in their field of expertise. Consultations last between 30 and 60 minutes. Areas of consultations include among others: Acquaintance, Taxation, Legal support, Systematization of business processes, Marketing, communications, Sales, Scaling, HR, Occupational health, Standards and technical regulations, Regulatory rules, IT and technologies, Women entrepreneurship, Social entrepreneurship, direct services and advisory to firms to improve the sustainability of their business models, energy efficiency, and ESG.

	DLR 4.3: The IVA will be provided with a consolidated report on the number of export-oriented projects of SMEs covered by ECA including for war risk in line with new ECA strategy. Export- oriented is defined as (i) a specific export contract, (ii) a loan provided for the execution of an export contract, (iii) a guarantee necessary for the execution of an export contract, (iv) a loan provided for the purpose of realizing an investment aimed at producing goods intended for export. DLR 4.4: The IVA will be provided with a consolidated report on the number of firms that have completed capacity building programs on EU harmonized product standards and also sustainability standards, including records of full attendance by representatives of the firms (employees, owners, managers, or any associates).

ANNEX 2. SUMMARY TECHNICAL ASSESSMENT

(Below is a summary of the Program's full Technical Assessment, which will be released separately. See Annex 8 for a detailed review of each business support program included in the expenditure framework).

A. Program Strategic Relevance, Technical Soundness, and Institutional Arrangements

A.1. Strategic Relevance

1. **The Program is highly relevant for Ukraine's recovery, as it directly addresses the urgent need to strengthen the private sector's growth prospects.** While Ukraine's economy has shown signs of a modest recovery since 2023 and the private sector has been remarkably resilient overall, the ongoing situation continues to impose an immense human and economic toll. SMEs, the cornerstone of the Ukrainian economy, have been particularly affected: while sales started to recover in the first quarter of 2024 for large companies, they continued to decline for small (-21 percent year-on-year) and medium-sized (-5 percent) ones (World Bank forthcoming). At the same time, over a third of reconstruction needs could be covered by the private sector if supported by an accelerated reform agenda, which could also unlock additional private sector opportunities totaling about US$ 280 billion (IFC 2023).

2. **The Program supports important reorientations of the GoU's support to the private sector, including a gradual strategic shift from short-term stabilization towards resilience, growth and sustainability, as well as better targeting.** As the magnitude and timing of external aid inflows is becoming increasingly uncertain, the GoU now seeks to reduce its aid dependence and use existing inflows to stimulate growth by strengthening private sector resilience and competitiveness. Businesses in Ukraine continue to suffer from a cumbersome regulatory environment with considerable room for streamlining and alignment with the EU. Moreover, while the GoU's firm support programs have become an important lifeline for SMEs, they have reached relatively few firms. As disruptions continue, a growing share of firms seek support to finance investments, find new clients and access new markets. The Program will ensure the GoU's business support programs are improved in line with international best practices for more efficient and effective support.

3. **The Program is aligned with the GoU's focus on private sector development as a key pillar of its strategy for reconstruction and sustainable growth.** Specifically, the Government's National Economic Strategy (NES) 2021-2030, the Ukraine Plan 2024-2027, and Ukraine's Reform Matrix 2024-2027 provide a robust strategic framework to advance key reform priorities for improving the business environment, revamping the portfolio of public programs in support of the private sector, and strengthening institutions and systems.

4. **The NES 2021-2030 and the Ukraine Plan 2024-2027 prioritize improving the efficiency of state support to SMEs, with a focus on green competitiveness** (Results Area 1)**.** In particular, NES Directive 17 – Entrepreneurship Development supports the objectives of i) ensuring an effective state policy for the development of businesses, ii) creating conditions to increase access to finance for firms, iii) creating conditions to increase access to markets for firms, and iv) stimulating private sector innovation. Similarly, Pillar 1 on the Business Environment of the Ukraine Plan prioritizes i) increasing access to finance and export markets through the implementation of revamped firm support programs for SMEs, ii) increasing the share of SMEs in the economy, and iii) program "State incentives for creation of industrial parks", and incentivizing and simplifying administrative procedures for utility networks infrastructure connections for larger investments.

5. **The NES 2021-2030 and the Ukraine Plan 2024-2027 also prioritize improving the business environment through G2B digital services and investment attraction** (Results Area 2)**.** In particular, NES Directive 3 – Regulatory Environment supports the objectives of i) ensuring transparent and effective regulation of business entities, and ii) ensuring transparent and effective market regulations, while NES Directive 7 – Investment Attractiveness supports the objectives of i) creating favorable conditions for investment attraction, and ii) creating a conducive environment for the mobilization of domestic capital. Similarly, Pillar 1 on the Business Environment of the Ukraine Plan prioritizes i) improving the regulatory environment through simplification and digitalization of G2B services[43], and ii) the adoption of a new SME Strategy in 2024 aimed at improving the business environment and access to financing for SMEs.

6. **Finally, the NES 2021-2030 and the Ukraine Plan 2024-2027 prioritize enabling access to export markets** (Results Area 3)**.** In particular, NES Directive 5 – International Economic Policy and Trade supports the objectives of i) ensuring mutually beneficial trade with foreign partners and increasing access to international markets, and ii) increasing the competitiveness of Ukrainian goods and services and presence on international markets, as well as promoting a positive country image for Ukraine. Similarly, Pillar 1 on the Business Environment of the Ukraine Plan prioritizes harmonizing business legislation, regulations, and standards with the EU to enable market access and support exports.

7. **The NES 2021-2030 and Ukraine Plan 2024-2027 complement an ambitious reform plan with a sizable investment and financing program to support firms, SMEs in particular, through the current circumstances and prepare them for the recovery.** In particular, Pillar 1 of the Ukraine Plan envisions investments in financial support for SMEs and the delivery of several publicly-funded firm support programs through diverse modalities, both financial – including soft loans, grants, guarantees and insurance - and non-financial (e.g., training, advisory services, ecosystem development, international exposure). Some initiatives have broad eligibility criteria (such as the 5-7-9 Program, the E-Robota programs, the EEPO's online business consulting services and centers), while others target specific firm types and sectors (e.g., startups, exporters, larger investors (Euro 12 mln), manufacturing).[44] Overall, the firm support programs included in the program of the GoU contribute holistically to the vision of the MoE, and of the government in general, of a vibrant ecosystem of SMEs, resilient to the shocks of the current situation, ready to take on competitive challenges on open and contestable markets, both domestically and internationally, capable of integrating into regional and global value chains through enhanced linkages with medium to large firms via increased FDI flows into Ukraine, fueled by a dynamic research and innovation ecosystem and early stage financing, enabled by a conducive business and regulatory environment, and at the forefront of the green transition, digitalization, and EU economic integration agendas. The program of the GoU addresses market and government failures that currently constrain SME productivity growth. Market failures include high uncertainty and interest rate environment as well as information asymmetry that limit private lending in the current

[43] The maturity of Ukraine's digital public infrastructure is satisfactory, and in some cases more advanced than comparators, with digital payment infrastructure, e-signature, and digital IDs as well-established building blocks. Ukraine has a strong 4G network in Europe, and, as of the end of 2023, access to more than 115 electronic citizen-to-government public services was provided through the Portal Diia, and more than 40 electronic public services were provided through the mobile application of Portal Diia (Diia). The Trembita system was created with EU support to enhance interoperability and data exchanges. It is a key component of the digital infrastructure for providing electronic services to citizens and businesses, which provides convenient, unified access to state register data. International evidence confirms that deploying G2B digital platforms can help reduce the large share of GDP—as much as 4%—lost in inefficiencies in public expenditures. Source: Beylis G., Maloney W., Vuletin G., Zambrano Riveros. 2023 J. "Wired: Digital Connectivity for Inclusion and Growth. Latin America and the Caribbean Economic Review" (October 2023). Washington, DC: World Bank.

[44] Firm support programs included in the NES and Ukraine Plan include the E-Robota Business Support Grant Programs (both for microenterprises and SMEs), the "Affordable Loans 5-7-9%" Program, program "State incentives for creation of industrial parks", the program 'Government support to investment projects with significant investments (Investnanny)' to provide financing and administrative simplification for utility networks connections for large investments (Euro 12 million), the "Support for Domestic Demand for Local Goods and Services" Program, the Innovation Development Fund, the Business Development Fund, the "Agricultural Machinery and Equipment Grants" Program, the export promotion, export readiness, certification and standards, and advisory programs of the Entrepreneurship and Export Promotion Office (EEPO), insurance, reinsurance and guarantees programs of the Export Credit Agency (ECA), the Horticulture Grants Program, and the Greenhouse Farming Grants Program.

context. Government failures include suboptimal provision of public goods and coordination failures that affect the business environment and the effectiveness of government efforts to counteract the effects of the ongoing situation.

8. **The RISE PforR is fully aligned with the WBG's strategic priorities in support of the people of Ukraine.** It focuses on two of the four priorities emphasized in the Ukraine Country Program Update (2023), namely sustaining the private sector, and supporting key reforms for sustained economic growth. It complements other operations supporting related areas.[45] Similarly, RISE supports critical implementation steps that complement private sector reforms supported in DPOs. The PforR is also aligned with the IFC's Economic Resilience Action (ERA) program, adopted in December 2022 to support the Ukrainian private sector by financing US$2 billion in near-term investments and upstream/advisory work to prepare the reconstruction, including planned advisory support on investment promotion.

A.2. Technical Soundness

9. **In line with its development objective, the Program supports a strong set of complementary GoU initiatives addressing several key constraints to private sector recovery and growth, with a focus on SMEs' resilience and competitiveness.** This includes the provision of support through diverse modalities, both financial – including soft loans, grants, guarantees and insurance – and non-financial (e.g., training, advisory services, ecosystem development, international exposure). Importantly in the current context, advisory services have increasingly been provided online to complement those provided in physical locations. Some initiatives have broad eligibility criteria, while others target specific firm types and sectors (e.g., startups, exporters, manufacturing). While there is scope to better coordinate the different GoU initiatives to support the private sector, this has started with the overarching coordination role played by the MoE, which the Program will support.

10. **The GoU has actively adjusted and expanded its business support programs since February 2022 to address firms' high needs.** As noted in the previous section, there is a strong and growing demand for support from Ukrainian firms, including SMEs (World Bank forthcoming). While some supported initiatives, such as the 5-7-9 loans program, have been implemented for several years, others are about to start after delays due to the ongoing situation or are newly adopted. Several new programs were designed to address specific constraints faced by investors based on their feedback (e.g, difficulty of connecting to infrastructure networks), and most have been adjusted to address firms' needs in the specific circumstances (e.g., high cost of financing, war risk). Given the exceptional challenges that continue to be faced by the private sector as the situation goes on, the GoU's immediate focus on providing direct support, including through subsidies, appears justified to avoid the collapse of viable jobs, firms and sectors. However, the nature and scope of this support will need to evolve in the recovery and reconstruction phases.

11. **The Program is well-positioned to support the GoU's ongoing efforts to improve the design of its business support programs to maximize impacts and ensure the efficient use of public funds.** Regulatory reforms and institutional capacity building are key Program dimensions, leveraging the strengths of the PforR instrument. As discussed below, the Program's theory of change and its DLIs build on these efforts to improve the magnitude and quality of government service delivery and to achieve stronger outcomes and impacts. The detailed review of the different activities supported by the Program shows that there is scope to improve the design of some supported initiatives to maximize their impacts, ensure the efficient of public funds and reduce unintended negative impacts.[46] In some cases, the GoU has already undertaken

[45] This includes the Ukraine Agriculture Recovery Inclusive Support Emergency (ARISE) project, which supports the agricultural sector.

reforms to address key areas for improvement working closely with development partners, including the World Bank and IMF in the case of the 5-7-9 loan program. The ongoing PER[47] suggests that the design quality of Ukraine's business support programs is intermediate, with an average score of 2.7 out of 5, lower than Poland (3.4) and Croatia (3.2), but higher than Bulgaria (2.6) and Romania (2.4), with variations across functional analysis categories. More granular analysis from the PER will be instrumental to support further design improvements for each program, but preliminary findings suggest common areas for improvement related notably to (i) the need to systematize use of cost-benefit analysis to justify programs, (ii) the need to introduce M&E systems to measure the achievement of attributable results at the program-level and identify needed adjustments to program design, (iii) the need to build the capacity of program managers and implementation staff, and (iv) the need to analyze potential regulatory impediments for programs to achieve their intended objectives. The Program will also help improve the performance the different government programs concerning the management of environmental and social issues, based notably on findings from the Environmental and Social Systems Assessment (ESSA).

12. **The PforR Program is based on global experience showing that pro-competitive, well-designed government business support programs, with sound implementation and financing modalities, can be an important enabler for firms with growth potential, and ensure the additionality of public funds.** The Program aims at minimizing the adverse impacts of the current situation on otherwise viable firms, while progressively moving towards more market-based policy solutions in preparation for the recovery. As such, the significant market and coordination failures caused by the widespread economic disruption since February 2022 warrant a temporary more directed and targeted approach to help firms "keep the lights on", while embedding the pro-competition principles of 1) appropriateness, 2) contestability by design, and 3) informed implementation for positive effects, in business support programs.[48] In this respect, all firm support programs included in the Program meet acceptable pro-competition requirements as participation by firms is open, non-restrictive, and linked with clear selection criteria. At the same time, programs are at different stages of design and implementation, and the multiphase PER supports their progressive redesign, upgrading, and full alignment with international best practices by a) institutionalizing systemic monitoring and evaluation and policy recalibration mechanisms, and b) establishing a clear pathway to increasing their efficiency and full alignment with international pro-competition practices. The PforR Program also establishes the necessary E&S safeguards through a legally binding exclusion list of activities with significant E&S risks and impacts. Finally, all business support programs are part of the broader Ukraine Plan 2024-2027, and Ukraine Reform Matrix 2024-2027, with a full endorsement and broad consensus of the international donor community, reflecting the well-grounded expectation that they will progressively comply with EU competition rules, including state aid rules, as part of the EU Accession process.

13. Although continued reforms are needed, the general legal, regulatory and institutional environment is broadly adequate to implement the Program. There is a need for improvements related to the outsized role of the state in the economy, the poor enforcement of property rights, deficient governance and weak market competition, all of which are included in the GoU reform program. In the years preceding February 2022, Ukraine had actively promoted reforms to improve the country's business environment by advancing reforms simplifying dealing with construction permits, making it easier to obtain access to electricity, registering property, protecting minority investors, improving access to credit, and trading across borders (World Bank Group 2021). Despite the particularly difficult circumstances, the GoU has continued to progress on structural reforms, including in governance/anticorruption and SOE reform, and is committed to advancing

[48] World Development Report 2024: The Middle-Income Trap. Washington, D.C. World Bank Group 2024.

in other areas, such as public investment management and energy sector governance (IMF 2024). Since 2022, the prospects of Ukraine's European Union (EU) accession and requirements to align with the "EU Acquis" have provided a strong anchor for structural reforms.

14. **The RISE PforR will contribute to maximize finance for development (MFD-E) and enable private capital (PCE) mobilization**. The PforR Operation will enable significant amounts of private capital mobilization, through a combination of reforms and programs that will enable investment flows, both domestic and foreign, and directly mobilize private sector resources.[49] Regulatory simplification was ranked as a top priority to remove a binding constraint to investment and business operation by 76 percent of firms as of March 2024[50], and Results Area 2 on improving the business environment and G2B digital services envisions the launch of the Diia.Business Portal 2.0 (DLRs 3.1 and 3.2) and the full deployment of the E-permit system (DLR 3.4) to simplify business entry, operation, and exit and reduce administrative compliance burdens on investors and firms. Similarly, a better regulatory environment was listed as the top factor driving additional investment (22 percent) by Multinational Corporations (MNCs)[51] in Ukraine, soon after peace (30 percent). The GoU, through the RISE PforR, is also seeking to proactively crowd-in private sector investment by deploying the policies, programs, and incentives that would encourage MNCs to further invest in Ukraine, such as introducing war risk insurance (27 percent of MNCs) as supported by DLRs 4.2 and 4.3, improved financial support schemes (22 percent) as supported by the program "State incentives for creation of industrial parks" and the program 'Government support to investment projects with significant investments (Investnanny)', and improved IPP framework (21 percent) as supported by DLR 3.3 under the new FDI Strategy, which is expected to enable a minimum of 20 investment leads in terms of private capital enabled (PCE) over the duration of the operation (see relevant IRI).[52] Furthermore, the reforms and measures to enhance compliance of SME financing programs with ESG requirements (DLR 2.1, DLR 2.2, and DLR 2.3) will lay the foundations for the development of a sustainable finance market with a significant investment potential that remains largely untapped in Ukraine. Overall, the PforR's investments, including its support for policy and regulatory reform and strengthening institutions and programs, will improve Ukraine's investment climate and have a catalytic effect on attracting private sector financing. The Program's economic analysis is in line with the MFD approach, and the recalibration efforts of firm support programs support by the operation aim to maximize private financing.

A.3. Institutional Arrangements

15. **The Program will involve all key institutions implementing business support programs.** The GoU has taken steps to strengthen the capacity of the MoE as the implementing agency and other relevant implementing entities, such as the BDF, EEPO, ECA and IDF, and will step up its efforts in this direction under the Program. New strategies, rules and procedures to clarify implementation modalities were adopted in recent months for several programs.

16. **Implementing agencies are committed to the Program's objectives.** As previously argued, fostering private sector growth and responding to SMEs need for support is a major priority for the GoU. This objective has been expressed on

[49] According to the RDNA3, the investment needs, and potential for private capital mobilization, for industry and commerce amount to USD 67.5 billion in the long term until 2033, and to USD 23.6 billion in the medium term until 2027, over the duration of the PforR Operation. The implementation of the redesigned firm support programs (DLR 1.2) and de-risking instruments (DLR 4.2 and DLR 4.3 on ECA) under the PforR have the potential to help catalyze up to US$5.5 billion of private investment needs for recovery and reconstruction in the short term according to the RDNA3. Source: *Ukraine - Third Rapid Damage and Needs Assessment (RDNA3) : February 2022 - December 2023 (English).* Washington, D.C. : World Bank Group.

multiple occasions at the highest level of the State and government, especially since February 2022, including by the President, Prime Minister, and First Deputy Prime Minister and Minister of Economy. The Deputy Minister of Economy in charge of investment has championed the Program, and led the MoE team working with the Bank to prepare it and identifying the support needed to improve the impacts of GoU interventions.

17. **The implementation capacity of the different agencies varies, but is good overall and will be strengthened during the Program.** Some programs have been ongoing for several years, with good results to date in terms of delivering concrete support to businesses (e.g., 5-7-9 Program, IDF, EEPO, ECA). On the other hand, some agencies, such as UkraineInvest, need to be strengthened. The Program will support government expenditures to provide implementing agencies with sufficient budget. Furthermore, the IPF component will provide additional resources to fill institutional capacity building needs, including technical support to carry out the PER and implement its recommendations, and establishment of a IU that will support implementation while more permanent capacity is being developed. The MoE started preparing a detailed plan to procure services through the IPF to enable Program implementation support, capacity building, IT solutions, etc. Moreover, the MoE and other implementing agencies can leverage the capabilities of external partners, such as commercial banks which assess the projects submitted by firms applying for financial support, and the Kyiv School of Economics (KSE) and KSE Institute.

B. Program Expenditure Framework

18. **The GoU has adequately handled fiscal policy in exceptional circumstances, thanks in part to strong external financing.** Prudent budget execution has enabled the GoU to manage tensions linked to high defense-related expenditures and difficulties on the revenue side (delayed approval of budget support, import tax losses from border blockades) and to keep the fiscal deficit under control in 2023 at 19.7 percent of gross domestic product (GDP). In March 2024, the IMF estimated that the budget deficit (including grants) would gradually decline to 13.7 percent in 2024, 7.3 percent in 2025 and 4.7 percent in 2026, in a baseline scenario with the ongoing situation winding down by end-2024 (IMF 2024). It also pointed out the high downside risks due to current uncertainties and potential external financing shortfalls. Public debt has increased sharply since February 2022, but implementing the GoU's fiscal management strategy, planned debt restructuring and continued external support could put it back on a sustainable path in the coming years (IMF 2024).

19. **While external support currently remains crucial for fiscal stability, the GoU will need to strengthen self-reliance in the medium term, including by increasing revenue collection.** In this regard, the GoU adopted a new National Revenue Strategy for 2024-2030 at the end of that year. Since then, it has continued working closely with development partners, including World Bank and IMF, on strengthening fiscal policy management and advancing structural reforms needed for higher domestic revenue collection. The GoU is determined to enhance expenditure planning and the medium-term budget framework, and the MoF has been working with the IMF to fill identified gaps compared to best practices which should start yielding improvements by end 2024 (IMF 2024).

20. **The proposed Program will support the GoU's fiscal consolidation efforts.** In the short term, the IBRD loan will provide much needed budget support to meet immediate fiscal needs. In the longer run, the Program will help by (i) ensuring more efficient use of public funds allocated to business support programs by strengthening design and institutional capacity, and (ii) fostering private sector growth as a key source of increased tax revenues.

B.1. Budget Structure and Classification

21. **The Program will support a mix of central government expenditures.** This includes budget allocated to the programs included in the expenditure framework providing direct financial support to firms and investors, as well as recurrent expenditures for key central agencies implementing business support programs providing this financial support as well as non-financial support, including salaries for relevant MoE staff. Each supported program has a separate budget line. The Program will also support expenditures to strengthen the institutional capacity of the ECA, a public company functioning with its own budget.

22. **Ukraine has made substantial efforts to strengthen public financial management (PFM) systems.** This agenda is guided by the PFM Strategy and Action Plan adopted for the period 2022-2025, which is aligned with the Public Expenditure and Financial Accountability (PEFA) methodology, EU standards and international best practices. It has worked to improve medium term budget planning and, while the ongoing situation has slowed down progress, the GoU resumed PFM modernization efforts in 2023. The Ukraine Plan 2024-2027 notably includes specific reforms with the objective to improve the monitoring and verification of state payments by the MoF (including for business support programs), digitalize the accounting system and harmonize accounting practices in the public sector, further strengthen audit and financial control systems.

B.2. Financial Sustainability and Funding Predictability

23. **Despite considerable uncertainty, the Program is expected to have sufficient resources to be implemented.** As mentioned, it will be financed with a mix of World Bank support and GoU contribution, with a remaining gap after 2025 that will need to be funded through future donor contributions. As discussed in the previous section, the GoU's ongoing efforts to strengthen revenue collection over the medium-term will strengthen its capacity to allocate budget to support private sector resilience and growth as a key strategic priority for the reconstruction. While the GoU will continue to prioritize defense expenditures, a winding down would also free up resources. Finally, external financial support will continue to play an important role although levels may decrease in the medium term, reinforcing the importance of domestic revenue mobilization. In this regard, support for private sector investment and trade is likely to remain an important focus of development partners and donor countries. Supporting the private sector was a central focus of the international Ukraine Recovery Conference that took place in Berlin on June 11-12, 2024.

C. Program Results Framework and M&E

C.1. Theory of Change

24. **The Program's theory of change is sound and clearly articulates the results chain from input to outcome and impact.** The Program's PDO is to improve the enabling environment for a sustainable private sector-led recovery in Ukraine. The theory of change addresses critical challenges to private sector resilience, growth and sustainability, including regulatory burden, lack of finance and insufficient market access, through the Program's three complementary results area (cf. section I). It adequately combines and articulates the GoU's efforts to (i) implement its business environment reform agenda (e.g., regulatory simplification, digital G2B services, standards alignment with the EU), and (ii) provide more efficient support to businesses by strengthening the institutional capacity of key agencies (e.g., Business Development Fund, UkraineInvest, ECA) in charge of the programs included in the PforR's expenditure framework as well as increase efficiency and targeting of such programs.

C.2. Results Framework and DLIs

25. **The Program's results framework and DLIs are aligned with the PDO and theory of change.** The results indicators capture improvements in both the business environment and the quality of government support to businesses, as well as the outcomes in terms of private capital mobilized, jobs and exports, aligned with corresponding cross-cutting outcome areas of the WBG Corporate Scorecard. The indicators use specific and attributable metrics (e.g., improved PER score, number of firms using G2B services).

26. **The responsibilities for M&E are clearly established.** The MoE will be responsible for M&E under the results framework, with inputs from implementing agencies as needed. It will produce semiannual Program Status Reports based on the results framework and other information related to Program implementation.

27. **The Program's DLIs and arrangements to verify their achievements are adequate.** Disbursements under of the PforR will be determined through four DLIs, including two under the first result area. These DLIs and the corresponding DLRs for the different periods are aligned with the Program's expenditure framework and results framework. They set strong but achievable results, with scalability to increase flexibility. In several cases, the DLRs are designed to transition from output- to outcome-oriented results as the Program advances. Specific and adequate verification protocols are proposed for each DLR.

C.3. M&E Capacity

28. Strengthening the baseline M&E capacity of the MoE and other program implementing agencies is a key Program objective. The MoE and other agencies (e.g. BDF, EEPO, ECA, IDF) have existing M&E capacity, and regularly report on the inputs, outputs and outcomes of the business support programs included in the expenditure framework. Some of the data collected have been used to prepare improvements to the programs, as was recently the case for the 5-7-9 affordable loans scheme. However, the PER points to shortcomings in M&E systems and their use. Support under the Program and the IPF component and IU to be established will therefore aim to improve the MoE and other agencies' M&E capacity to collect data required to monitor the Program results and provide more evidence of its impacts. Furthermore, the MoE will continue working with external partners to increase capacity, such as the KSE.

D. Economic Evaluation

D.1. Rationale for Public Financing

29. The economic rationale for government intervention to support the resilience and recovery of Ukraine's private sector is strong. In the short term, this is notably justified by the need to help firms face the major supply and demand shocks caused by the ongoing situation, and to address the exceptional uncertainty and risks that currently prevent private investment and affect the functioning of markets, including for SME financing. Indeed, recent evidence on the impact of SME support programs during the COVID-19 pandemic shows that timely, temporary support during a large crisis can have long-lasting positive impacts on beneficiaries (Bruhn, Demirgüç-Kunt Singer 2024). Well-designed and targeted government support will reduce the permanent loss of viable firms and jobs ("hysteresis effect"), that will have growth potential during recovery and reconstruction phases.

30. **In the longer run, the Program addresses several market and government failures that are otherwise likely to undermine the pace of private sector growth and the competitiveness of firms.** Market failures targeted by the GoU's different support programs include credit market imperfections for lending to SMEs and startups, high perceived risks of export transactions, information asymmetries regarding investment opportunities, insufficient financing of E&S-aligned investments, and coordination failure for connecting to network infrastructure needed for industrial investment. Moreover, institutional and regulatory reforms will address government failures that increase the cost of doing business and undermine the efficient functioning of markets, including by streamlining/digitalizing regulatory requirements and harmonizing standards. The global experience shows that pro-competitive, well-designed government support programs with sound implementation and financing modalities can be an important enabler for firms with growth potential, including innovative and export-oriented ones, and can ensure the additionality of public funds (McKenzie 2023).

D.2. World Bank Added Value

31. The World Bank is particularly well-positioned to support the GoU's efforts to catalyze private sector growth. The Bank has strong global experience supporting private sector development programs. It will leverage its PER methodology to help the GoU improve the design of its programs to maximize impacts based on best practices and will bring resources to help build institutional capacity and implement improved programs. In Ukraine, the Bank brings substantial knowledge from previous projects and recent analytical work on the constraints to private sector development. The Program will also benefit from the Bank's convening power and capacity to foster knowledge sharing with other countries. It can also leverage the range of support provided by the World Bank Group, from support to policy reforms through development policy lending to IFC's support through advisory services and direct financing of the private sector.

D.3. Program Economic Impact

32. **The Program's net present value (NPV) is expected to be US$2.8 billion in a pessimistic scenario, with an economic internal rate of return (EIRR) of 67 percent.** The main impact channels to generate economic gains are increased sales and PCM through SME support programs, increased exports facilitated by the ECA, Diia.Business Platform, EEPO and the harmonization with EU standards, as well as FDI inflow enabled by an improved business environment and investment facilitation efforts. Program support to the 5-7-9 loans scheme could lead to a US$726 million increase in sales in the economy and US$1 billion in PCM, export support efforts could add US$200 million in signed export contracts, and the adoption of the FDI strategy supported by the program is expected to result in at least US$ 4.5 billion of investment inflows by 2028 – taking a pessimistic scenario, given the government's US$15 billion target by 2026. The expected impacts of the different interventions reinforce each other to improve the overall Program-level impact on growth. Overall, considering the full Program cost (US$1.7 billion, plus US$1 billion of PCM) and pessimistic estimates of the expected sales, investment generated (PCM and FDI) and exports it will enable, the estimated NPV amounts to US$2.8 billion over a 5-year horizon, using a 6 percent discount rate, and an estimated EIRR of 67 percent. A sensitivity analysis shows that a conservative scenario would result in a NPV of US$5.8 billion and an optimistic one could result in an NPV of up to US$8.5 billion. These results are largely driven by the expected PCM and FDI inflows, which sum up to US$8.3 billion by 2028 based on conservative estimates. Thus, it is worth noting that, in a pessimistic scenario, a positive NPV is reached if investment (PCM and FDI) reaches at least US$1.8 billion (35 percent of the pessimistic expectation). The analysis considers a short

time horizon due to the context. However, assessing a 10-year period would add US$9.9 billion in investment, resulting in a NPV of US$10.1 billion in a pessimistic scenario, and a corresponding EIRR of 73 percent.

33. **In addition to direct economic benefits, positive Program externalities will include protected firms, jobs preserved and created as well as environmental benefits.** In the absence of financial support programs, many firms facing liquidity constraints would face high risks of going bankrupt, leading to further losses in employment. Supporting business resilience is essential, as the eventual process of rehiring workers, reestablishing lost firm-to-firm relationships, and rebuilding productive links can be increasingly costly. There is evidence of increased job generation among firms that have received support from the 5-7-9 program, as well as other SME support programs. Moreover, 20 percent of the capital mobilized is expected to originate in female-led businesses, acknowledging that women are a particularly vulnerable group during the ongoing situation, as many have stayed as sole supporters of their families. By supporting FDI attraction in green sectors and embedding ESG requirements in GoU business support schemes, the Program will also contribute to green growth and GHG emission reduction. Finally, increased exports and FDI will result in an inflow of foreign exchange that can eventually alleviate pressures in the balance of payments.

34. **The Program will support the financial sustainability of key GoU agencies supporting SMEs.** In particular, reforms supported by the Program will strengthen the financial model and governance of the BDF, the non-profit public non-bank financial institution which implements the 5-7-9 program. Under this program, the BDF acts as an agent for MoF and provides interest rate subsidies on loans to SMEs using funds allocated from the public budget. Ongoing reforms aim to control the associated fiscal expenditures and the BDF's accumulated arrears to banks were recently cleared. Previous Bank assessment found that the BDF was sufficiently capitalized and had maintained good asset quality and strong liquidity position. The Program also supports strengthening of the ECA as the main provider of insurance for exporters. ECA's statistics show that the share of liability or capital utilization was 13 percent in 2023 and is currently 36 percent. The track record of indemnities paid is positive, as ECA has only paid one insurance indemnity since it started operations in October 2020. Furthermore, written premiums are taken upfront, eliminating the risk of default on insurance premium payment. The ECA's insurance capacity is limited by its authorized capital, currently UAH 2 billion, which the GoU seeks to increase.

E. Technical Risk Rating

35. **The Program's technical risk level is substantial, but manageable with the planned mitigation strategies.** The main technical risks stem from (i) the design shortcomings of some of the supported GoU business support programs, and (ii) the limited implementation capacity of key agencies. Addressing these two weaknesses is a key dimension of the Program. On the design side, the Program will build on ongoing GoU efforts to improve the modalities of key programs (e.g. 5-7-9 loans) and support this through the PER. The results of these efforts will be captured through the DLIs and condition disbursement of IBRD funds. Regarding institutional capacity building, the Program and its IPF component mobilizes resources to bring additional implementation capacity, notably through the establishment of a IU, and to build more durable capabilities at the MoE and relevant agencies.

Table 1: Expenditure Program

Budget program	Activity name	Implementing agency	Budget							RA
			Share of budgeted Program in 2024	US$ million[1]	UAH million					
				2024	2024	2025 (est.)	2026 (est.)	2027 (est.)		RA
1201450 – Ensuring the Operations of the Business Development Fund	Affordable Loans 5-7-9%	MoE / Business Development Fund	50%	220.0	9,000[2]	18,000	18,000	18,000		1
1201360 – Ensuring state support of projects with significant investments	Investment Nanny	MoE	17%	73.3	3,000	TBD [3]	TBD	TBD		1
1201430 - Supporting internal demand for national products and services	Made in Ukraine cashback program	MoE / Ministry of Digital Transformation	17%	73.3	3,000	TBD	TBD	TBD		1
2901060 – Support of Innovation Development Fund [4]	Innovation Development Fund	Ministry of Digital Transformation / Innovation Development Fund	0%	0	0	TBD	TBD	TBD		1

411240 – Functioning of the Institution for Export Support and Promotion	Entrepreneurship and Export Promotion Office (EEPO)	Economics and Financial Department of the Secretariat of the Cabinet of Ministers of Ukraine / EEPO	0%	0.9	37	37	37	37	3
1201310 - Partial compensation of the value of agricultural equipment	Agricultural machinery and equipment grants	MoE	6%	24.4	1,000	TBD	TBD	TBD	1
1201340 - State incentives for creation of industrial parks	Incentives for Industrial Park	MoE	6%	24.4	1,000	TBD	TBD	TBD	1
1201350 – Provision of grants for the creation or development of businesses[5]	eRobota	MoE / State Employment Center	5%	21.8	890.5	890.5	890.5	890.5	1
1201010 - Leadership and Management in the Sphere of Economics [6]	Salaries	MoE	0%	0	0	570.5	570.5	570.5	1, 2 and 3
		Total	**100%**	**438.3**	**17,928**	**19,498**	**19,498**	**19,498**	
		Overall expenditure program (UAH million)						**76,421**	
		Overall expenditure program (USD million)						**1,756.8 [7]**	

[1] Exchange rate used: UAH 40.9 per US$ in 2024 and UAH 43.5 per US$ in outer years and totals. [2] Finally, complementary to the ARISE Project (P180732), RISE will cover all other sectors except beyond agribusinesses (around 50 percent of program expenditures). Once the US$ 500 million allocation envisaged under ARISE (Component 1) has been exhausted, RISE will cover all sectors including agribusinesses. [3] Some programs have not been allocated budget yet for years 2025-2027. These amounts will be added to the expenditures program when budgeted. [4] Excluded in 2024 as a result of the FSA/ESSA findings. [5] This budget lines also include smaller funding windows to support investment in horticulture and the construction of greenhouses, which are managed with the Ministry of Agrarian Policy and Food, but these are excluded from the Program's expenditure framework. [6] MoE salaries excluded in 2024 as covered by PEACE expenditures. As of 2025, these expenditures will be covered by RISE. [7] In addition, off-budget, USD 1 bn (UAH 43,500 bn) of commercial financing (volumes of loans provided under redesigned 579 program) is expected to be mobilized.				

ANNEX 3. SUMMARY FIDUCIARY SYSTEMS ASSESSMENT

Section 1: Conclusions

1.1. Reasonable assurance

1. Pursuant to World Bank Policy and Directive for Program-for-Results (PforR) Financing (March 2022) and the Program-for-Results Fiduciary Systems Assessment Guidance Note (January 2024), the World Bank's fiduciary team assessed whether the Program's fiduciary systems provide reasonable assurance that financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. Based on the assessment and agreed upon actions to strengthen the system, which are reflected in the Program Action Plan (PAP), and other mitigation measures, the Program's fiduciary systems are considered broadly adequate to meet the requirements in the Bank's PforR Policy and Directive.

2. The assessment was conducted based on a desk review of relevant legislative acts, selected procurement transactions including verification of contracts executed, many meetings held with various participating agencies, procurement and FM questionnaires and inputs provided by these entities, as well as other procurement and FM related data analysis, including procurement and contract information available online at ProZorro website.

3. The IFSA examines the Program's overall setup for managing funds and achieving results. It focuses on three key areas: (i) Institutional Framework: this includes assessing the capabilities of organizations involved in the Program, both in terms of governance and managing resources effectively; (ii) Financial Management: this dives deep into the Program's financial practices, from budgeting and accounting to internal controls and reporting; (iii) Procurement and Anti-Corruption: this evaluates how the Program has proper system in please to use funds fairly and transparently, responsibly, avoid fraud, and achieve its goals ensuring compliance with the World Bank's Anti-Corruption Guidelines (ACGs).

4. Implementation of the PforR will rely on and follow the Government of Ukraine (GoU) procurement systems and arrangements established within the Ministry of Economy of Ukraine (MoE) and its subordinated institution Business Development Fund (BDF) as well as other agencies. The IFSA shows that there are no procurement expenditures under the Program that are mandated to follow national Public Procurement Law (PPL) and use Prozorro. The only potential exception is related to potential participations of SOEs and Utility Companies of local administrations that may be selected as beneficiaries of the programs to be financed under the PforR. In this case, the PPL and use of Prozorro will become obligatory and will follow procurement bidding, evaluation, and contract management processes established by the national legislation. This provides reasonable assurance that the Program will achieve the intended results through its procurement processes and procedures. Procurement of equipment, machinery, goods and materials by SMEs under the support SMEs expenditure programs is co-financed by participants and is regulated by an ad hoc resolution of the GoU that establishes the procedure for each calendar year.

1.2. Risk assessment

At this stage, the overall integrated fiduciary systems risk (including the risk of fraud and corruption) to the achievement of the PDO is assessed as Substantial.

5. The key fiduciary risks and mitigations actions are:

a) **Inefficiencies in processing procurement activities and potential contracts implementation delays due to the MoE's limited capacity and experience in procurement in accordance with the World Bank's rules and procedures.** To mitigate this risk MoE's IU will be established with well-defined distribution of responsibilities and strengthened by hiring external individual consultants, including the procurement consultant with appropriate experience. The fiduciary staff will be trained in FM, procurement and disbursement through Bank's e-learning modules and workshops. The OM will include a detailed procurement timeline.

b) **There is a risk of low level of competition, since the average number of bids per open tender procedures conducted through national e-Procurement system Prozorro was slightly over 2 in 2023 and 1.8 in 2022.** In order to enhance competition, the Ministry of Economy (MoE) as main implementing institution in charge of IPF procurement will try to combine into larger packages planned procurements and ensure wide advertisement of procurement opportunities through its respective website. In addition, business outreach/market sounding events will be organized before launching of planned procurement activities under the Program (security situation allowing). Both procurement and technical staff of the MoE shall be trained to produce high quality tender documents before the start of Program activities and during the Program implementation.

c) **Multiple Implementing Institutions involved in procurement transactions might not be aware of the lists of debarred and suspended firms declared by the World Bank and other Multilateral Development Banks (MDBs).** Most of the contracts planned under the IPF component of the Program are of relatively small size. It is, therefore, unlikely that these contracts would be awarded to firms debarred or under temporary suspension by the World Bank or other MDBs. Budgetary programs which will be financed within the PforR component provide for co-financing of contracts executed by SMEs on the basis of commercial law, thus fraud and corruption risks during contracting process are minimal, however the risk of contracting debarred firms persists. However, to avoid this risk: (i) the MoE issues an official instruction to cause the participating agencies to ensure that no contract will be awarded to a firm or individual which is in the World Bank's debarred list or under temporary suspension; (ii) the updated lists of the debarred and temporarily suspended firms and individuals be shared on regular basis (through a web-page, if feasible, updated concurrently with the World Bank update) with the program implementing agencies; (iii) the TOR for annual audit of the Program request that auditors and/or Accounting Chamber of Ukraine (ACU) check on a random-sampling basis whether any contract has been awarded to ineligible firm or individual; (iv) the regular Progress Reports should contain a confirmations that no such debarred or suspended firms have been contracted under the Program.

d) **Procurement positions in the institutions involved in Program implementation are subject to frequent staff turnover or are understaffed.** This is aggravated by millions of refugees who left the country and conscription to the army since beginning of February 2022. In order to ensure timely implementation of planned procurement activities, all vacant positions shall be filled, and staff involved in the execution of the Program secured before the start of activities and during its implementation.

e) **Potential underfunding of the Program due to large variances between the budget requests and approved budgets on specific budget lines included into the Program**. Financing of the relevant budget programs of the MoE and implementing agencies may be insufficient and may vary from year to year during the period of the Program implementation. However, the MOF and MoE have incentives to allocate sufficient funds as the state budget, as then the budget funds will be replenished by the World Bank in the amount which is connected to each specific DLI upon its achievement. Immediate costs associated with the achievement of each DLI will be less than the value of respective DLI, and the remaining amount will continue supporting the respective budget programs. Sufficiency of budget allocation will be monitored through the review of annual Program financial statements and analysis of actual and planned expenditures. Successful implementation of the DLIs will also provide indirect evidence of the sufficiency of budget funding.

f) **Most of the budget lines included in the Program were not financed prior to 2024, and therefore their past performance cannot be analyzed.** Exceptions are 1201350 and 0411240 which were executed in the past one (2023) and two years (2022-2023) respectively. Procedures for implementation are not yet adopted for majority of budget lines, with few exceptions, which poses some risk on delayed implementation in 2024 as well as potentially in subsequent years. Exceptions are 1201350, 0411240 and 290160 where the procedures are already available. Government would need to ensure that no military related expenditures are funded from the Program. Other issues observed are the overall complexity of the implementation mechanisms of some of the budget lines, particularly 0411240, 1201350 and 1201360. This also poses risks as to the full and timely implementation of respective activities. Also it was observed that budget allocation in 2024 is smaller than the actual financing needs for half of the budget lines included in the Program. Detailed FM assessment of the Program is included in IFSA including summary of identified risks and proposed mitigation measures.

g) **Lack of fiduciary capacity at the MoE and potential inadequate financial monitoring of the Program implementation as a whole.** The government does not automatically produce specific consolidated Program financial statements, and the MoE does not have experienced staff to monitor the program implementation, collect information and submit Project financial reporting. At the same time, throughout the Program implementation MOE will be required to prepare such annual Program reports which will provide annual planned and actual amounts on the implementation of budget programs associated with the Program, manually consolidating data that will be received from the respective agencies. The form and content of reports will be developed and agreed with the Bank before start of the Project implementation and will be included in the Operational Manual (OM) for ease of coordination and consolidation. To mitigate the risk MoE will have to establish the IU and staff it with appropriate number of qualified employees having sufficient knowledge and ability to carry out the above tasks. World Bank will also organize a training workshop to counterparts on the format and content of program reports.

h) **Potential delay of carrying out of the Project financial audit by the ACU or private auditors.** The ACU carries out financial audits of budget programs as per the annual plan, which is formed using a risk-based approach. Therefore, the Program may not be subject to financial audits during the years of Project implementation in case it is not included into the ACU`s annual auditing plan. To mitigate this risk, the team conducted negotiations with the ACU to suggest that the Program is included in the auditing plan on an annual basis and respective audits are delivered within 9 months of each financial years. In case of inability of ACU to carry out respective audits in all or some of the years, a private audit firm will be contracted to carry out Project audits.

1.3. Procurement exclusions

6. **Given the nature of the Program, it is not envisaged that it will finance any contract for works, goods and/or consulting services above the Bank's Operational Procurement Review Committee (OPRC) thresholds[53].** Currently there

[53] OPRC thresholds for substantial risk projects are US$75 million for works, US$50 million for goods, information technology and non-consulting services, and US$20 million for firm consultants.

is rather limited scope of procurable items in the Program and the highest estimated value of single procurement package planned is set at the equivalent of US$3.3 million[54] per contract for smart infrastructure solutions. However, should such OPRC level contracts be concluded, they would be excluded from the Program.

7. **Procurement will follow the World Bank's Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting and Consulting Services, dated September 2023 (Procurement Regulations).** Due to the current circumstances and emergency nature of operations, procurement simplifications and flexibilities as defined in the "Guidance Note for Procurement in Situations of Urgent Need of Assistance or Capacity Constraints" dated March 2019 will apply. The specific flexibilities for Ukraine were approved by the Chief Procurement Officer in July 2022 and subsequently extended to June 2024 and June 2026.

8. **The Operation is subject to the World Bank Anti-Corruption Guidelines (ACGs)**.

- For the PforR, to implement the Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing," dated February 1, 2012, and revised July 10, 2015, the GoU through MoE will immediately inform the World Bank of any complaint or claim related to fraud and corruption which the GoU through MoE, through implementing agencies, either receives or is notified. Unless otherwise agreed by the World Bank, the GoU through MoE will take timely and appropriate action to investigate such allegations and indications; will report to the World Bank on the actions taken in any such investigation; and, promptly upon the completion of any such investigation, will report to the World Bank the findings thereof. The GoU will provide the World Bank with all the records, documentation, and information that the Bank may request with respect to such issues.
- The IPF part of the operation (Project) will be subject to the World Bank's Guidelines on Preventing and Combatting Fraud and Corruption in Projects financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006, revised in January 2011, and as of July 01, 2016 (ACGs).

[54] UAH 131,421,679.00 as per the MoE Order #693 dated May 16, 2024

ANNEX 4. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

Program Description

1. The proposed Resilient, Inclusive and Sustainable Enterprise (RISE) Program aims to address critical challenges to increased private sector participation, and in particular by SMEs, in the reconstruction and future growth of Ukraine's economy. The Program Development Objective (PDO) is to improve the enabling environment for a sustainable private sector-led recovery in Ukraine. The Program will support the implementation of selected components of the Government's National Economic Strategy (NES) 2021-2030 and the Ukraine Plan 2024-2027. More specifically, it will support the implementation of selected reforms and investments, under the NES and Ukraine Plan, led by the Ministry of Economy (MoE) and other agencies aiming to improve conditions for private sector growth and provide support to firms. It will support the objectives of 1) improving the efficiency of the portfolio of public firm support programs, 2) improving the business environment through the enhanced provision of government-to-business (G2B) digital services, and 3) enabling SME access to export markets. The Program will have a nationwide scope (excluding territories temporarily no longer under the government's control and territories close to the frontline) and will align with the implementation period of the Ukraine Plan. The total IBRD (World Bank) financing will be US$1.03 billion (See Section 1).

Hybrid approach to WB financing instruments:

2. The proposed Program takes a hybrid approach to financing via supporting a Program for results (PforR) and an investment project financing (IPF) focusing on technical assistance in order to support GoU in achieving its objective: (i) a Program-for- Results (PforR) component; and (ii) a Technical Assistance (TA) component for the implementing entities, which will be implemented as an IPF to address critical institutional development and capacity gaps within implementing institutions. This ESSA focuses on E&S concerns associated with the PforR component and will be supporting the management, mitigation and monitoring efforts of the implementing entities to be supported under the Program. The IPF component will be managed by the WB ESF.

ESSA Methodology

3. The ESSA was prepared by the World Bank's assessment team through a combination of reviews of existing program materials and available technical literature as well as interviews with government staff, non-governmental organizations, community members and development partners. The ESSA (a) examines the scope, context, and potential impacts of the Program from an E&S perspective; (b) assesses in detail the different E&S effects under the Program activities, including indirect and cumulative effects, contextual and political risks related to the E&S issues; (c) assesses the capacity of national bodies in addressing related E&S risks and identify any complex risks in implementing E&S measures; (d) compares the borrower's systems (laws, regulations, standards, procedures, and implementation performance) against the PforR's following **six core principles**; and (e) formulates recommended measures to address capacity for and performance on policy issues and specific operational aspects relevant to managing program risks. As part of the PforR appraisal process, further consultations will be conducted with key stakeholders. The findings, conclusions and opinions expressed in the ESSA document are those of the World Bank.

1) **promote environmental and social sustainability** in the PforR Program design; **avoid, minimize or mitigate adverse impacts**, and promote informed decision-making relating to the PforR Program's environmental and social impacts;
2) **avoid, minimize or mitigate adverse impacts on natural habitats and physical cultural resources** resulting from the PforR Program;
3) **protect public and worker safety** against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the PforR Program; (ii) exposure to toxic chemicals, hazardous waste, and other dangerous materials under the PforR Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards;
4) **manage land acquisition and loss of access to natural resources** in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their **livelihoods** and living standards;
5) give due consideration to the cultural appropriateness of, and equitable access to, PforR Program benefits, **giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups**;
6) **avoid exacerbating social conflict**, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

Anticipated E&S Benefit

4. The Program will have a number of positive **environmental** effects resulting from enhancing green competitive policies (such as adoption of the ESG requirements) for financial institutions that support SMEs. The Program will also have positive **social** effects, in particular the creation of job opportunities in SMEs, which account for over 80 percent of private sector jobs, and improved labor and working conditions in such SMEs through the enhanced E&S risk management and monitoring systems of the financial institutions.

Potential E&S Risks and Impact and Risk Classification

5. While the client government institutions may not directly engage with physical interventions, the business activities of the SMEs supported by the Program will have potential E&S risks and impacts related to localized construction/expansion of business facilities as well as operation/manufacturing. The E&S risks and impacts of the individual Program activities are not anticipated to be large scale or irreversible (if the exclusion criteria are duly applied). The overall E&S risks are considered "**Substantial**" as per the WB ESSA Guidance (with appropriate exclusions and mitigations presented in the ESSA) (See Section 2).

6. The main potential negative **environmental** impacts are associated with the effects of business activities of SMEs in diverse sectors under DLIs/DLRs. While the scale of business activities of SMEs are relatively limited, their activities may have potential environmental risks and impacts related to:
1. construction as well as operation-related pollution (including air, water, soil pollution; waste management);
2. resources utilization, biodiversity impacts and cultural heritage impacts;
3. OHS and community health and safety; and
4. Institutional E&S capacity constraints.

7. The main potential negative **social** impacts associated with business activities of SMEs will include:

(i) risks related to labor and working conditions of SMEs workers (including vulnerable groups of workers and workplace SEA/SH risks);

(ii) potential resettlement risks and impacts caused by land purchase by SMEs (such as on informal users) is deemed limited (the client government institutions will not directly acquire lands for the Program). The Program is not likely to cause negative changes in land use pattern and/or resource use;

(iii) exclusion of vulnerable groups where the business owners of SMEs have limited access to the Program (such as female business owners or those in remote areas or who have limited access to ITs) is deemed limited. MoE has a proven track record in implementing programs ensuring the inclusion of vulnerable groups in the project design and implementation, developing projects that target veterans, IDPs, people with disabilities and elderly, youth group, and women's groups. MoE can utilize a participatory approach to project design through public consultations with project beneficiaries and affected parties. MoE has an adequate information flow at the regional (oblast) and grass roots levels to ensure a participatory approach the decentralized planning process to the subproject design and implementation; and

(iv) social tensions or conflicts/grievances over the Program if the relevant implementing institutions have inadequate grievance redress systems (a grievance mechanism is in place in MoE to mitigate complaints from the communities); and

(v) safety risks related to war hazards (such as ERW, landmines and aerial strikes) which could affect business activities.

Expenditures with potentially significant E&S risks and impacts:

8. While most support programs in the Expenditure Program are broadly limited in scale and the potential E&S risks and impacts are similar to those identified under DLIs/DLRs, some programs to be supported under the Expenditure Program could have potentially significant E&S risks and impacts associated with significant infrastructure investment. The exclusion criteria and additional E&S risk mitigation measures for these programs/schemes are provided.

Legal and Regulatory Framework

9. The GoU has developed national environmental legislation and adopted new laws and regulations together with a number of programs and action plans to address environmental issues and promoted sustainable use of natural resources. The country has adopted several subsidiary laws and legislation on environmental management and is a party to series of international and regional environmental agreements and conventions. The country also has the nature protection policy and the implementation of measures in the field of rational use of natural resources and environmental protection are ongoing. On the social side, the country has developed relevant legal and regulatory frameworks which cover key social issues, including land acquisition and resettlement, labor and working conditions and social inclusion and sustainability. The ESSA provides a concise assessment of the country's E&S legal and regulatory framework on the six core principles under WB's PforR Policy, which are deemed applicable to the proposed Program, including its strengths and challenges (see Section 3). The ESSA concludes that, in general, the rules and regulations of the E&S management system applicable to the proposed PforR are consistent with the Bank PforR Policy and Directive, while the capacity to effectively implement certain SME-support programs could be improved. Thus, several recommendations are made to address these shortcomings and are included in the Program Action Plan (PAP).

Institutional Capacity Assessment

10. Ministry of Economy (MoE) is the implementing agency of the proposed Program, which will manage individual programs to support SMEs. The salient characteristics of these programs (such as nature, type and scale of activities) and relevant E&S capacity of the managing units have been assessed. Other than the BDF where the WB has been supporting its E&S capacity through separate IPF operations, the E&S capacity of the MoE would benefit from extensive support, together with other implementing agencies in the proposed Program (EEPO, ECA and Innovation Development Fund) .

Comparative Analysis of Borrower E&S System And World Bank Core Principles

11. Key findings from the E&S systems assessment are summarized below, including on the strengths and weaknesses/areas for improvement of the current system which will inform the proposed gap-filling/mitigation measures to ensure that the Program is managed in a manner consistent with the Core Principles of the Bank's PforR Policy.

1. ***Core Principle 1 (Environmental and Social Sustainability and Risk Management) and 2 (Natural Habitats and Physical Cultural Resources)***

   Strengths

   - Ukraine has formally **aligned its legislation with the EU**'s Environmental Impact Assessment (EIA) Directive and the Directive on Strategic Environmental Assessment. Also, after signing the Association Agreement with the EU, Ukraine became a signatory to environmental and sustainable development international conventions and adopted a wide range of legal acts and programs.
   - **The scope of Ukrainian environmental legislation is comprehensive** (more than 300 legal acts) and covers most areas of environmental protection and natural resources management.
   - **The BDF (which consists of 70% of the Program expenditure) has a robust ESMS** supported under WB IPF operation (ARISE Project).
   - There is a 24-hour hotline "Government contact center" (https://ukc.gov.ua/) and 0 800 500 115 - Hotline of the Ministry of Environment for grievances on issues of protection of the environment and natural resources of Ukraine.

   Weaknesses/Areas for improvement

   - **The legislation does not have all the essential enforcement mechanisms** for implementing legal acts and international agreements, especially due to limited capacity of responsible authorities due to the ongoing situation. Many of the acts are not coherent.
   - WB's past and current operational experience in the country and practical information from similar construction sites show that some of **the national legislation on OHS, community health and safety, waste management and resource efficiency are sometimes overlooked and/or neglected** – partially, due to the lack of knowledge of the workforce, due to the lack of supervision and guidance, but also to speed up the process and save the budget (for mitigation measures).
   - **The E&S capacity of MoE**, the lead implementing agency, would benefit from extensive support.
   - **Inadequate of EHS guidelines for SME operations**

2. ***Core Principle 3 (Public and Worker Safety)***

   Strengths:

   - Ukrainian legislation on labor protection consists of the Law of Ukraine "On Labour Protection" and many bylaws. The scope of Ukrainian labor legislation includes norms related to creation of safe and harmless working conditions, occupational health, rights to labor protection during the conclusion of an employment contract, guarantees for people with disabilities, the rights of employees to safety during work, the right of employees to benefits and compensation for difficult and harmful working conditions, compensation for damage in case of damage to the health of employees or in case of their death as well as liability for violation of labor protection legislation and recommendations for employers and employees during martial law. The activities of the state supervisory bodies for labor protection are regulated by the Law of Ukraine "On Labor protection", the Civil Protection Code of Ukraine, Law of Ukraine "On ensuring the sanitary and epidemic welfare of the population" and others. In addition, MoE is developing a new labor Code, which will include norms about safety and health of employees at work, which will be aligned with best practices. **Efforts are underway to improve the compliance of Ukraine's OHS legal framework with key international and European standards on OHS and labor relations**.

- **Ukraine adopted the Barrier Free Environment Strategy for the period up to 2030 and approved the Action Plan for 2024-2025, which, inter alia, includes a section related to economic barrier-free environment (providing conditions and opportunities for employment, entrepreneurship of young people, women, elderly people, people with disabilities, etc.).** An advisory body, the Barrier-Free Environment Council, was established under the Cabinet of Ministers: the Council is chaired by the Prime Minister of Ukraine and involves a number of stakeholders: Office of the President of Ukraine, 15 ministries and central executive bodies, 24 RMAs (regional military administrations), KMMA (Kyiv Municipal Military Administration), territorial communities, as well as international and Ukrainian expert organizations, representatives of business communities and civil society organizations. Involved institutions regularly provide reports on Action Plan implementation within their area of competences: the reports of the State Labour Service of Ukraine, which mandate lies within the worker safety domain, are shared publicly on the regular basis. Also there is free primary legal assistance provided in the premises of the State Labor Service.
- MoE implements **support programs focused on compensation for the employer's labor costs for the employment of internally displaced persons as well as compensation for arranging the workplace of a person with a disability** at the expense of the Mandatory State Social Insurance Fund.

Weaknesses/Areas for improvement:

- **The high incidence rates of work-related accidents and occupational diseases** indicate that a lot remains to be done, when it comes to the prevention of occupational risks and the promotion of the safety, health and well-being of workers.
- **These gaps and shortcomings are further exacerbated by the ongoing situation**. Accidents with fatal consequences caused by hostilities constitute almost half of the total fatal injuries at work in the conditions of conflict.
- Lack of support by MoE to **SME's EHS**.

3. *Core Principle 4 (Management of Land Acquisition and Involuntary Resettlement)*

Strengths:

- While **the client government institutions will not directly engage with physical interventions**, the proposed Program will not envisage any compulsory land acquisition and involuntary physical and economic displacement caused by the client government institutions.

Weaknesses/Areas for improvement:

- In Ukraine, the right to dispose of land and other property are based on registration of ownership. **There are some gaps between the national regulations and WB standards** (such as support to informal users and livelihood restoration).

4. Core Principle 5 (Inclusion of Vulnerable Groups)

Strengths

- **The Ukrainian regulatory framework contains a wide range of policies and legislation at various administrative levels pertaining to gender and social inclusion, and relevant to inclusive access of program benefits for vulnerable groups**.

Weaknesses/Areas for improvement:

- There is potential that **vulnerable groups might be excluded from Program benefits** due to a variety of reasons (such as gender, remoteness, disabilities, digital literacy).

5. Core Principle 6 (Avoidance of Social Conflict)

Strengths

- **There are a number of national policies and regulations that foresee cross cutting systems for stakeholder engagement and information disclosure across all the program activities.**
- The Law of Ukraine "On Citizen Appeals" provides the right to file observations, complaints and proposals with the government authorities, local governments, citizens associations, enterprises, institutions, organizations.
- The Law of Ukraine "On Access to Public Information" defines the procedure for exercising and ensuring everyone's right to access information that is in the possession of subjects of authority and information that is of public interest.
- There is Service of Mine Action Countermeasures of the State Emergency Service of Ukraine (SESU; https://mine.dsns.gov.ua/), which contains an interactive map of areas that could potentially be contaminated by explosive objects and provide the possibility to report about mines. Under SESU supervision, regular training on civil protection is provided for businesses.
- There is a functional Register of damaged and destroyed property in Ukraine and the Procedure for compensation for it from the state. Affected owners can apply for compensation online via Diia.Portal (https://diia.gov.ua/services/poshkodzhene-majno).

Weaknesses/Areas for improvement:

- Ukrainian legislation, relative to international good practice, lacks **the possibility of anonymous grievances**.
- **While BDF, Innovation Development Fund and EEPO have their own grievance system, their functionality could be reviewed and strengthened**.
- **No effective E&S system is available to address safety risks related to war hazards** (such as ERW and aerial strikes), which could affect business activities of SMEs.

Stakeholder Engagement

- **Consultation Event for Preparing ESSA (May-June, 2024)**: For the preparation of this ESSA, the Bank task team undertook a series of meetings with different stakeholders, including the following. The consultation meetings were organized online in May 22-28 with relevant government institutions and with the CSO group on June 28, 2024. No site visits were conducted due to the security concerns in the country. The outcomes of the consultations have informed the ESSA, including the assessment of the regulatory and framework, the institutional capacity and community engagement program.
- **Consultation Event for Finalizing ESSA (July 24, 2024):** Further consultations were undertaken in an inclusive manner before the completion of appraisal, which consisted of formal public consultations with key stakeholders. The inputs are considered and incorporated into the final ESSA.

- **Document Dissemination and Public Disclosure:** The draft ESSA will be translated into Ukrainian language and shared with the stakeholders and publicly disclosed before the public consultation. The final report will be disclosed publicly in-country and at the World Bank's website before the board approval.

Conclusion and Recommendations

12. Based on the above assessment, a series of measures and actions are recommended for the proposed Program to address the identified gaps between the government E&S management system and the core principles of the Bank's PforR Policy. These would ensure that the proposed program be managed in a manner consistent with the Core Principles. These recommendations shall be integrated in the following. They will be also embedded in the OM for operationalization, as appropriate. Their effectiveness will continue to be monitored and adjusted throughout the program life:

(i) **Excluded activities** (such as large-scale construction and rehabilitation work with significant E&S risks and impacts; large-scale land acquisition and involuntary economic and physical resettlements; significant conversion or degradation of critical natural habitats or critical physical cultural heritage; support to activities for military purposes/clusters.)

(ii) **Relevant DLIs/verification protocol** for promotion of green competitiveness through ESG requirements (via BDF)

(iii) **The Program Action Plans (PAPs)** (such as appropriate E&S staffing and institutional capacity development of government institutions; Operationalization of OM with E&S guidelines; Promotion of the EHSG international good practice among SMEs; Inclusive community engagement program; Improvement of functional grievance systems; Regular and incident program reporting; Conduct of E&S audit to exclude activities with significant E&S risks and impacts; and including E&S expertise in the IVA to monitor E&S mitigations).

ANNEX 5. PROGRAM ACTION PLAN

Action Description	Source	DLI #	Responsibility	Timing		Completion Measurement
E&S Staffing arrangement for the Program	Environmental and Social Systems	NA	MoE/IU, BDF, EEPO, ECA, IDF	Other	Within two months of Program Effectiveness	(i) Engagement of qualified E&S Specialists in the IU in MoE; (ii) Assignment of an E&S focal point in all other implementing institutions; (iii) Setting up effective communication and coordination mechanism among them.
Implementation of capacity building program for the E&S staff and focal points	Environmental and Social Systems	NA	MoE/IU, BDF, EEPO, ECA, IDF	Recurrent	Continuous	Implementation of capacity building program for the E&S staff and focal points by MoE/IU, BDF, EEPO, ECA, IDF.
Preparation and implementation of OM with comprehensive E&S Exclusion List	Environmental and Social Systems	NA	MoE/IU, BDF, EEPO, ECA, IDF	Other	OM completion as part of dated Covenants	Preparation and implementation of Operational Manual (OM)with comprehensive E&S Exclusion List and E&S PAP actions (as presented in ESSA).
EHS Capacity enhancement for SMEs	Environmental and Social Systems	NA	MoE/IU, BDF, EEPO, ECA, IDF	Other	Adoption/inclusion as part of OM Implementation and training throughout the life of the Program	MOE and other implementing institutions to integrate the following: (i) WBG general and sector specific EHSGs and roll-out training programs for SMEs; (ii)

						Emergency Preparedness and Response Plan (EPRP), (iii) GBV and SEA/SH risk mitigations.
Inclusive community engagement program	Environmental and Social Systems	NA	MoE/IU, BDF, EEPO, ECA, IDF	Other	Adoption/inclusion as part of OM Implementation throughout the life of the Program	Inclusive community engagement program operationalized by MOE. Vulnerable groups are to be involved in program design and implementation.
Semi-annual regular reporting on E&S aspects and incident reporting	Environmental and Social Systems	NA	MoE/IU, BDF, EEPO, ECA, IDF	Recurrent	Semi-Annually	(i) conduct regular site visits and check stakeholder feedback, (ii) Sem-annual for regular reporting; (iii) Within 48 hours for incident reporting in serious incidents occurred under the program.
Improvement of functional grievance mechanism (GM)	Environmental and Social Systems	NA	MoE/IU, BDF, EEPO, ECA, IDF	Other	Adoption as part of OM GM operational throughout the life of the Program	Establishment of functional grievance mechanism (GM) (or improvement of existing grievance mechanism)
E&S Audit for support to the program 'Government support to investment projects with significant investments (Investnanny)' and the program "State incentives	Environmental and Social Systems	NA	MoE/IU to submit the TORs and E&S audit	Other	Prior to financial support to the relevant facilities by MOE	(i) Exclusion list; (ii) Screening that the facilities are renovation/rehabilitation of existing facilities and excluding new or significant expansion of existing facilities; (iii) Preparation of TORs to conduct E&S

for creation of industrial parks”						audit; (iv) E&S audit/assessment.
Hiring the E&S expert in the IVA to conduct regular monitoring of progress on E&S risk management, particularly regarding the compliance of the Program activities with the OM	Environmental and Social Systems	NA	MoE/IU and IVA	Other	Before the disbursement to Investnanny program and the program “State incentives for creation of industrial parks” AND two months after effectiveness Regular reporting during program implementation as specified in the OM	Hiring the E&S expert in the IVA to conduct quarterly monitoring of progress on E&S risk management, particularly regarding the compliance of the Program activities with the OM.
Procurement Plans published regularly with default competitive methods indicated for the Program procurement activities	Fiduciary Systems	NA	MoE	Recurrent	Semi-Annually	Program Progress Report including procurement KPIs results
List of procurements completed in each year by type and amount (indicating the % use of competitive methods and direct contracting), participation rates, # of complaints and contracts completed.	Fiduciary Systems	NA	MoE	Recurrent	Semi-Annually	Program Progress Report

Program progress report should confirm that no contracts has been awarded to a suspended or debarred firm.	Fiduciary Systems	NA	MoE	Recurrent	Semi-Annually	Semi-annual Program Report
Information on implementation of each budget line is submitted regularly to the Department responsible for the Program implementation and IU	Fiduciary Systems	NA	MoE, implementing agencies	Recurrent	Quarterly	Consolidated Interim Financial Reports
Adequate interim financial reporting is produced and submitted timely to the World Bank	Fiduciary Systems	NA	MoE, implementing agencies	Recurrent	Quarterly	Consolidated Interim Financial Reports
Audit of the Program consolidated financial statements is carried out and submitted timely	Fiduciary Systems	NA	MoE	Recurrent	Yearly	Audit report on the Program financial statements
IT solution is developed or customized to support accounting and reporting under the Program	Fiduciary Systems	NA	MoE	Recurrent	Continuous	Reporting is produced using the IT solution
Share information/report on corruption allegations with the Bank immediately	Other	NA	MoE	Other	Immediately when allegations are reported/received Bi-annually for	Receipt of ACG report

when identified and a consolidated bi-annual report describing the details of the reported allegations and actions taken					consolidated report	
Disseminate Bank's anti-corruption guidelines together with updated lists of the debarred and temporarily suspended firms and individuals among implementing institutions	Other	NA	MoE	Recurrent	Continuous	List of institutions receiving information
Meeting held with appropriate attendance among implementing institutions	Other	NA	MoE	Recurrent	Yearly	Meeting held with appropriate attendance among implementing institutions

ANNEX 6. IMPLEMENTATION SUPPORT PLAN

1. **The Government of Ukraine is responsible for the program's overall implementation**. The Implementation Support Plan reflects the nature of the reform activities. It considers the risks to the PDO, the extraordinary challenges faced by the Government, and the FCV context. The plan will be regularly reviewed and revised as necessary.

2. **The Bank project team will provide implementation support throughout the project's lifetime.** Implementation support will likely be more intense during the first 12 months after project approval. Implementation support will be provided in the following areas listed below.

3. **The Bank project team will closely review implementation progress toward program results, which are a requirement for DLI disbursements.** The Bank team will carry out monthly check-ins and quarterly missions, in-person security situation permitting. The Bank project team will support the completion of a Mid-Term Review (MTR) one year into implementation to assess progress and challenges. An Independent Verification Agent will be engaged to carry out monitoring, oversight, and reporting. The Bank will work closely with Ministry of Finance and Ministry of Economy in their roles as the Project Coordinator and Executing Agency.

4. **The Bank project team will facilitate technical assistance to achieve program results.** It will provide technical support to the MoF, MoE, BDF, ECA and EEPO in order to build institutional capacity. The Bank team will, *inter alia*, support the client in: implementing a full-scale Policy Effectiveness Review (PER) in 2025 and 2026 of all private sector support policies and programs of the GoU, develop and institutionalize a regular monitoring and evaluation system of private sector support policies and programs, integrating ESG and gender aspects into firm support programs, institutional strengthening of investment promotion and facilitation and institutional strengthening of the Export Credit Agency and BDF.

5. **The Bank project team will provide guidance on fiduciary and E&S aspects, continuously assess compliance with legal agreements, and monitor changes in risks to the program.** The Bank project team will review project IFRs and audit reports and follow up on issues raised. It will also facilitate training on procurement processes that are compliant with applicable procurement regulations, anticorruption guidelines, and the OM. It will support control system assessments.

6. **The following implementation support plan estimates skill, timing, and resource requirements.** The skill requirements may be subject to change over time.

Main focus of Implementation Support

Time	Focus	Skills Needed	Resources Estimate	Partner Role
First twelve months	Prior results verification DLRs verification IPF preparation and launch of procurement	Program planning and technical support		

	processes			
12-36 months	DLRs verification IPF implementation preparation and monitoring ESF oversight Procurement oversight Integrating gender and ESG aspects in firm support programs Additional financing to close the financing gap	Program monitoring, fiduciary, environmental and social monitoring. Technical support.		
Other				

Task Team Skills Mix Requirements for Implementation Support

SKILLS NEEDED	Number of Staff Weeks	Number of Trips	Comments
Task Team Leaders	32	6	N/A
Sr. Financial Sector Specialist	20	0	Country-based
Private Sector Specialist (STC)	20	0	Country-based
Sr. FM Specialist	8	0	Country-based
Social Development Specialist	8	0	Country-based
Sr. Procurement Specialist	4	0	Country-based
Sr. Environmental Specialist	4	0	Country-based
Gender Specialist	2	0	N/A
Legal	2	0	N/A

Role of Partners in Program Implementation

NAME	INSTITUTION/COUNTRY	ROLE

EU4Business: SME Policies and Institutions Support	European Commission / Ecorys	TA for streamlined SME policy/regulatory framework and capacity building for business support institutions (implemented by Ecorys)
EU4Business: From Policies to Action Phase II	European Commission / OECD	TA on institutional framework for SME policy planning, delivery and M&E
Strengthening Intellectual Property Rights in Georgia, Moldova and Ukraine	European Commission / EUIPO	Support legal/regulatory reforms and institutional capacity building for IPRs
Strengthening the resilience and competitiveness of Ukraine's quality infrastructure	Germany GIZ / UNIDO	TA to strengthen Ukraine's Quality Infrastructure (QI) public entities
SME Policy Index: Eastern Partner Countries	OECD	Assess and monitor progress in the design and implementation of SME policies against EU and international best practice
Supporting the digital transformation of SMEs	OECD	Support to digital business transformation through analytical support and capacity building
Global Quality and Standards Program	Switzerland SECO / UNIDO	Strengthening the National Quality Infrastructure System for the berries and nuts value chains
Global Eco-Industrial Parks Program	Switzerland SECO / UNIDO	TA to develop the policy and regulatory framework for eco-industrial parks
SME Resilience & Growth Support	United Kingdom FCDO	TA to implement business regulatory reforms and improving SME access to finance
IMF	IMF	Technical Assistance on 579 program/BDF
Investment for Business Resilience	United States USAID	Technical assistance support to MoE

ANNEX 7. INVESTMENT PROJECT FINANCING COMPONENT

1. **The IPF component aims at supporting the MoE in the implementation of the National Economic Strategy 2021-2030 and of the Ukraine Plan 2024-2027 as defined under the PforR Program.** Thus, it will finance technical assistance for institutional and organizational strengthening, capacity building, consulting support, and knowledge transfer to enable the MoE, and relevant implementing agencies, to achieve sustainable change, and to have timely access to emerging regional and global experience. To this end, the IPF component of US$30 million (of which US$ 20 million are unfunded) will assist with the implementation of the Program through the following sub-components:

2. **Sub-component 1. Operational Support (project management and monitoring).** This sub-component supports the effective management and implementation of the proposed program. This part would finance the day-to-day management and monitoring of the proposed project through an Implementation Unit (IU). It would cover salaries for such consultants, including a project manager and fiduciary, environmental and social risk management specialists. It would also finance training activities, targeted technical assistance, data collection and analysis, project monitoring and evaluation, and operating costs. This subcomponent will also finance technical assistance, training and operating costs of the MoE and of the MoF for activities related to the PforR, including the costs for the Verification Agent.

3. **Sub-component 2. Targeted Technical Assistance and Capacity Building**. This sub-component provides technical support and skills transfers to the MoE, the MoF, the ECA, the BDF and the EEPO to strengthen institutional capacity in delivering firm support programs: 1) implement a full-scale Policy Effectiveness Review (PER) in 2025 and 2026 of all private sector support policies and programs of the GoU, 2) develop and institutionalize a regular monitoring and evaluation system of private sector support policies and programs (including regular business pulse surveys (BPS), and regular SMEs' administrative compliance burden surveys), 3) integrate ESG and gender aspects into firm support programs, 4) institutional strengthening of investment promotion and facilitation, and, 5) institutional strengthening of the Export Credit Agency, the BDF, and the EEPO. This component will finance also capacity building programs for both implementing agencies and final beneficiaries, such as in the case of the capacity building and technical assistance programs on compliance with EU harmonized product standards.

4. **Sub-component 3. IT Solutions.** This sub-component will finance IT solutions (hardware and software) in support of digitization and upgrading initiatives of the ECA, the MoE, and the EEPO, as well as creation of a digital investment platform for Ukraine's reconstruction including with a view of meeting energy efficiency standards in Ukraine. It will include, for example, the development of a digital dashboard for economic monitoring, analysis and impact assessments of the MoE's economic policies, digital platforms for SMEs' self-assessment of carbon footprints, software upgrades for the Register of Investment Projects with Significant Investments, among other initiatives. These activities are not included in the National Budget, but they are critical for the early stages of implementation of the Program.

5. **Sub-component 4. Change Management.** This sub-component will finance staff, operational costs and capacity building for communications and work with internal and external stakeholders to support constituencies for reforms across all three results areas. In addition, the component will finance CE activities (i.e. participatory M&E through policy dialogue platform & satisfaction survey).

Implementation arrangements

6. **The MoE will be the implementing agency for the IPF component.** The responsible Deputy Minister of Economy will oversee the overall IPF component implementation, and the MoE IU will play a key role including procurement, financial management, environmental and social (E&S) aspects and monitoring and evaluation. The IU will consist of MoE staff members and external consultants. Internal IU members will be nominated from the Department for Attraction of Investment and Engagement with International Organizations (which coordinates the implementation of RISE), Financial and Economic Activity Department (to provide oversight of financial and procurement aspects), and Department of Strategic Planning and Macroeconomic Forecasting (to help conduct monitoring and evaluation, data collection, and impact assessment of RISE). Provided limited experience of MOE staff with implementation of an IPF, additional training may be provided, particularly during the initial period of Project implementation. In addition to that, MoE will hire external consultants (Financial Specialist; Procurement Specialist; ESG Specialists) financed by this component. The IPF component will imply additional resources for the MoE that will follow standard IPF arrangements with traditional disbursement methods, where the Program will finance eligible expenditures. The Bank's E&S Framework for IPF will apply to the IPF activities.

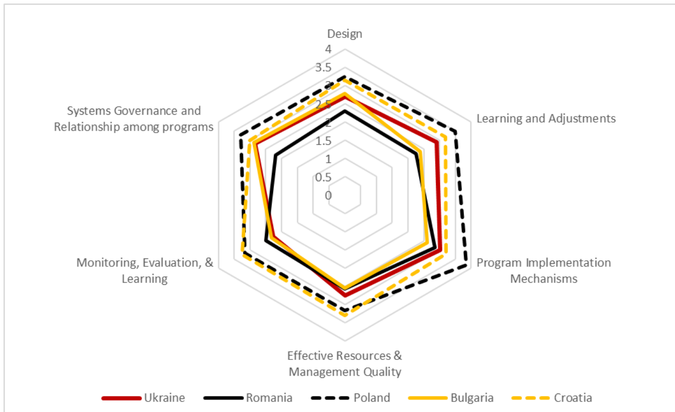
7. **Disbursements of the IPF Component of the Program will be made with the use of regular disbursement mechanisms, which will be laid out in the Disbursement and Financial Information Letter**. A Project designated account would be opened in an acceptable bank in USD. MOE IU will prepare quarterly IFRs to report on the use of funds under this component. Funds used under the IPF will also be subject to the annual audit which will be carried out by the same auditor as appointed for Program audit, following same timeline. Audit reports will be due nine months after the end of each financial year of Project implementation.

8.

9. **The Environmental and Social Risk Rating for the IPF is considered Moderate**. The IPF component will provide the Government with TA activities (Type 2 and 3 TA activities). The potential project-related E&S risks and impacts from such TA activities are not likely to be significant. The MoE will prepare an Environmental and Social Commitment Plan (ESCP) for the IPF which will be disclosed before appraisal. Considering the nature and scope of the IPF component, a Stakeholder Engagement Plan will be included as part of the ESCP and the operational manual (no stand-alone SEP will be prepared). A broader stakeholder engagement program covering the PforR component will be included in the ESSA.

ANNEX 8. BUSINESS SUPPORT PROGRAMS INCLUDED IN THE EXPENDITURE FRAMEWORK

Figure 1. PER Functional Analysis. Ukraine and Europe and Central Asia Comparators



Source: World Bank staff calculations.

Affordable Loans 5-7-9%

1. **Since February 2022, state programs have become the main engine of lending.** The credit program 5-7-9, first launched in 2020, has been playing a key role in lending in crisis conditions.[55] The program was initially launched to stimulate investment lending, but then shifted to anti-crisis lending to support businesses, first during the quarantine and then during the current circumstances. As of June 2024, the 5-7-9 program accounted for around 40 percent of the net UAH corporate portfolio (compared to 5 percent in 2020) with a total of UAH 129 billion of loans issued since February 2022 and a total of over 52,000 loan agreements issued. Agricultural companies (48% of the program's portfolio), trading companies (26%), and industrial companies (17%) have remained the main beneficiaries of the program. The vast majority of loans under the program are for working capital purposes, with investment loans accounting for about 15% of the portfolio. The five most active banks participating in the program provided 64% of the approved loans.

2. **The 5-7-9 credit program is based on a mechanism of (partial) compensation of interest rates.** The interest rate on a loan provided by a bank is determined by market conditions but capped by a pre-determined spread that is added to the cost of deposits. The latter is measured by the Ukrainian Index of Retail Deposit Rates (UIRD), an index of rates on three-month deposits[56]. Banks are compensated at a floating rate that is revised quarterly as the UIRD index changes while the borrower has to pay only a fixed low rate (5 to 9 percent at the start of the program). BDF – as an agent to GoU – uses budget funds to compensate the difference to banks.

[55] The conditions, criteria and mechanism of program implementation are determined by the Provision for state financial support to small and medium-sized enterprises, approved by the CMU decree No. 28 dated 24.01.2020 (hereinafter – the Provision), and the mechanism for the use of funds provided for in the state budget under the program «Ensuring the functioning of the Business Development Fund», regulated by the corresponding provision, which was approved by the CMU decree No. 29 dated 24.01.2020.

[56] 13.19 as of June 25th, 2024.

3. **Since its launch, the program has been modified on several occasions** to help the private sector face the impacts first of the COVID-19 crisis and then as of February 2022, by increasing subsidy levels (including to provide interest-free loans) and making more firms (including large ones) and more sectors eligible. The program has played a key role in supporting business lending during these crises, when unmet financing needs were especially large. It has also developed banks' institutional capacity to lend to SMEs, which now account for a larger share of the overall loan portfolio than before the pandemic.

4. **As the 5-7-9 program grew over time, unintended impacts have materialized**. Due to introduction of full interest rate compensation as well as broadening of the program in 2022 and 2023 (large enterprises and a wider range of sectors, maximum loan amounts were increased) the program became fiscally unsustainable. NPL levels for the program amount to around 9 percent (which is low compared to 37 percent for the system). That said, asset quality is a concern, in particular for the legacy 0 percent interest loans that still form part of the portfolio (which might disguise those SMEs' solvency issues). BDF is working on increasing its monitoring function and the IPF component will support BDF as part of its capacity building component.

5. **Since mid 2023, the GoU has put 5-7-9 program on a reform path to minimize distortive impacts, reduce fiscal risks, and bring it in line with good practices**. The program was limited to SMEs, interest rates were increased, bank margins were reduced by 300-500 basis points and the maximum size of working capital loans to non-priority sectors lowered from UAH150 million to UAH5 million. This is in line with GoU's strategic plan adopted at the end of 2023 (supported by IMF and World Bank) that envisages phasing out large firms, focusing on SMEs lacking access to finance, and improving program monitoring as well as strengthening BDF's institutional capacity, governance and financial self-sustainability. Next steps include (i) reinstating state aid rules (which will help focus on new clients), (ii) further targeting the lower end of medium-sized as well as women led/owned enterprises and (iii) conversion of the BDF into a national development institution putting it at arm's length of the GoU. The PER will also bring further insights into further needed reforms.

6. **The PforR and its IPF component will be well-positioned to support implementation of the new strategy for the 5-7-9 program.** While subsidized lending to SMEs can be justified in some cases to address credit market imperfections when other policy instruments are not feasible, this should be grounded in a sound assessment considering context-specific factors, be temporary and complemented by other reforms. In Ukraine, domestic credit to the private sector has declined since the pandemic and the ongoing situation, but was already low before, amounting to 30 percent of GDP in 2019, significantly lower than the levels in the EU (85 percent), Europe & Central Asia region (51 percent) and lower middle-income countries (44 percent).[57] The ongoing situation justified government support to foster SME lending, although the level of support should evolve to reflect market conditions. In any case, interest rate subsidies carry significant risks, notably of market distortions, as the 5-7-9 program's recent experience demonstrates. Supporting the GoU to implement its new vision for this program will be key to mitigate these risks and ensure scarce public funds go to SMEs with the most constrained access to finance and the largest potential to contribute to Ukraine's recovery and future growth. The PforR will also be instrumental to support the development of a stronger M&E system at the program level and the disclosure of more data about its impacts.

[57] Source: WDI

Investment Nanny

7. **This program, first enacted in February 2021,[58] aims to bolster private investment by offering incentives packages to large investors, but the ongoing situation has delayed its implementation**. It provides a mix of tax incentives[59] and compensation for infrastructure costs[60] worth up to 30 percent of the CAPEX of eligible foreign and domestic investments, and currently targets investment projects of at least EUR 12 million over up to 5 years. Under the program, the MoE is responsible for assessing eligible investment projects of investors applying for support and providing a conclusion on about their feasibility. The investment promotion agency UkraineInvest, which is tasked with acting as an "investment nanny" by providing individualized support to investors with approved investment projects. According to UkrainInvest, by February 2022 the program had generated interest from investors for 28 new projects totaling about US$ 2.3 billion, but only two of them worth USD 96 million obtained all the required approvals before February 2022 and several others were suspended as a result of it. As of September 2023, UkraineInvest was reportedly supporting 10 projects worth US$ 1.25 billion to obtain support under the program,[61] but no project had been implemented yet by May 2024.

8. **The GoU has proactively adapted the program's design, although there is scope for further improvement.** The program was reformed in August 2023 to attract more investment in the special context of the ongoing situation, including for the reconstruction of the country's infrastructure.[62] Steps taken to date include simplifying application procedures, the introduction of new forms of State support, lowering the minimum investment threshold to attract more companies,[63] making the job creation requirement more flexible,[64] and broadening the scope of eligible sectors.[65] However, there is scope to further improve the program to maximize its impact, which the PforR will support. This include defining clear and measurable objectives, further enhancing the transparency of the investor selection process, and better aligning the program with other investment-related policies. Additionally, establishing a robust M&E framework is crucial to determine the program's impact and ensure it meaningfully contributes to Ukraine's economic development objectives. The program would also benefit from learning and training opportunities for staff (and consultants) in the medium term.

9. **It will be important to ensure that the provision of incentives is grounded in a sound economic rationale and integrated with the GoU's broader efforts to improve the investment climate.** The Invest Nanny program could play an important role to catalyze much needed private investment, especially as the ongoing situation continues. While the provision of investment incentives is a widespread practice around the globe, it can lead to inefficient use of public funds and tax base erosion in the absence of a sound cost-benefit analysis, undermining the State's capacity to carry out needed investment including for private sector growth (World Bank 2020a). Given its relatively modest current budget of UAH 3 billion (US$ 74 million), it is essential to select beneficiaries based on rigorous criteria and to design incentives in a way to ensure additionality (i.e., support investments that would not proceed without the government's support) and maximize positive externalities, such as technology demonstration/transfers, backward linkages and knowledge spillovers in the country (World Bank 2020b). It is also essential to ensure incentives are integrated in Ukraine's broader investment policy

[58] Law of Ukraine No. 1116 "On State Support for Investment Projects with Significant Investments in Ukraine", and related amendments to the Tax and Customs Codes of Ukraine. See https://ukraineinvest.gov.ua/en/analytics-research/explanatory-guide/

[59] Including corporate income tax exemption (up to 5 years), VAT and customs duty exemption for imported equipment, land tax exemption, etc.

[60] This includes providing compensation for the cost of engineering and transport infrastructure facilities built by the investor and/or of connecting to engineering and transport networks.

[61] Source: https://ukraineinvest.gov.ua/en/news/13-09-2023-1/

[62] See: https://ukraineinvest.gov.ua/en/news/13-09-2023-1/

[63] This threshold was initially set at EUR 20 million, but was lowered to EUR 12 million in 2023. When first announced in early 2020, a bar of US$ 100 million was mentioned (see: https://www.president.gov.ua/en/news/investment-nanny-ta-podatkovi-kanikuli-prezident-ukrayini-u-59381).

[64] The initial requirement was to create at least 80 jobs but a new requirement was adopted to create 10-50 jobs depending on the level of their salaries compared to the regional averages for similar activities.

[65] The program currently targets 16 priority sectors, including biogas/biomethane production, processing industry, waste management, transport, warehousing, postal and courier services, logistics, sport, electronic communications, extraction of minerals for enrichment/processing, education, R&D, health care, tourism, art and culture, resort and recreation.

framework. The global experience shows that the wider investment climate, market opportunities and access to key production factors typically have more influence on investment location decisions than tax incentives (World Bank 2020a). The fact that the Investment Nanny program focuses not just on tax incentives and also addresses access to infrastructure is positive but, while some financial support may be needed in some cases, the GoU can also work in parallel to streamline related regulations, promote competition in utilities sectors, facilitate PPPs, etc.

Support for Domestic Demand for Local Goods and Services Program

10. **This is a new government initiative that will provide consumers with a cashback of up to 10 percent for purchasing locally produced goods.** Its initially stated objectives are to support domestic producers and workers, reduce the country's import dependency and increase tax revenue. More modest and realistic objectives would be to increase the visibility of domestic products and encourage digital payments. Participation in the program will be voluntary, and should require consumers to request a special card from participating banks. The cashback program is part of a broader "Made in Ukraine" platform announced at a high level in February 2024, that includes subsidies for the purchase of specific products made in Ukraine, such as agricultural machinery (cf. Reimburse Agri program below) and school buses, local content requirements in public procurement, and increasing incentives granted through other investment support programs (e.g., Affordable Loans 5-7-9) for projects involving the purchase of Ukrainian goods. It is expected to be launched after July 2024.

11. **Incentives for locally made goods can have positive impacts in the specific circumstances, but also carry significant risks that should be carefully managed.** In the short term, the program may help generate some much-needed tax revenue, although it could also have unintended impacts due to competitive distortions and inefficient use of public funds. It should therefore be the object of a rigorous cost-benefit analysis. The program was announced only recently and details are still lacking about its final implementation modalities. While the criteria for the participation of Ukrainian firms are clear and aligned with pro-competitive practices, it will notably be important to set clear rules to determine what goods qualify as locally-made.[66] The available information suggests that the threshold for domestic value addition may be set as low as 5 percent, and products may qualify as long as some productions step, such as packaging, takes place in the country (epravda 2024).[67] There would also be a monthly limit to the amount of cashback that a single consumer can receive, which could be set at UAH 3,000 (US$ 74). Any received cashback would need to be spent within 3 months, and the GoU is reportedly considering different eligible expenditures, such as utility bill payment, transport and medical services. Strong measures also need to be set to minimize fraud risks.[68]

12. **As conditions normalize, GoU support should focus on fostering domestic value addition and enhancing the competitiveness of products made in Ukraine.** Financial incentives in the form of cashback to consumers should come with sunset clauses to be phased out as the ongoing situation winds down and financial conditions improve. Performance requirements could be set in terms of progressive quality upgrades for continued participation in the program. The GoU reportedly plans to see the scheme's initial results to decide whether/how to extend it in the 2025 budget (epravda 2024). In any case, the emphasis should be put over time on other ways to increase the competitiveness of domestic producers and products and to foster the purchase of local products. This could include support to local SMEs (e.g., business

[66] The program will notably need to be designed in a way to be compatible with Ukraine's WTO obligations, including the GATT's basic principle of national treatment. At the launch event, the President stressed that the program was not intending to establish trade barriers for foreign goods (see: https://www.president.gov.ua/en/news/prezident-ukrayini-rozroblyayetsya-programa-ukrayinskogo-kes-89329).
[67] Products subject to excise, such as alcohol and tobacco, should be ineligible.
[68] All customers, manufacturers, retailers and banks willing to participate in the program will need to register. Only non-cash payments with a fiscal receipt issued by registered taxpayers (retailers) will be eligible, increasing transparency. Participating banks will send information about the purchased products and customer through the Diia platform.

development services, supplier development programs), improvement to the national quality infrastructure supported by the PforR, consumer awareness campaigns, increase the visibility of Ukrainian products,[69] etc.

Innovation Development Fund (Ukrainian Startup Fund)

13. **The Innovation Development Fund (IDF), also known as the Ukrainian Startup Fund (USF), was established in 2018 to bolster the country's tech industry.** Building on Ukraine's strong tech sector and large and growing talent base, the IDF aims to facilitate the growth and development of early-stage tech startups. It provides them with advisory/mentoring services and financial support through several programs, including an innovative voucher program and an accelerator program (each up to US$10 thousand); a grant program (from US$25 thousand for pre-seed to US$50 thousand for seed stage). The IDF also contributes to the tech ecosystem's development by organizing events (e.g., hackatons, bootcamps, lectures, Ukrainian participation in global tech conferences). Since February 2022, it has increasingly supported projects to develop dual use innovations (i.e., civilian and defense) and to support the country's reconstruction.

14. **Since its creation, the IDF has provided over 380 startups with US$8.7 million in funding.** In total, it has received over 7,000 applications for support, demonstrating a high level of impact and demand for its programs. The IDF was initially managed by the Ministry of Finance, but this responsibility was transferred to the Ministry of Digital Transformation in 2023. Designed in collaboration with the World Bank, the Fund's strategy and structure were carefully crafted to align with Ukrainian legislation and market needs, offering non-equity grants to startups. This approach is tailored to the Ukrainian context, where equity investments are less viable due to the absence of a clear exit strategy amidst market uncertainties and ongoing situation.

15. **The ongoing situation has led the IDF to concentrate on certain industries and sectors, including defense tech, dual use projects and deep tech.** While this is understandable given the specific circumstances, it is expected to be a temporary shift and enable the IDF to support a diverse and inclusive start up ecosystem going forward. There is also a challenge of ensuring that the financial support provided is used effectively within Ukraine, given the complex context and the need to comply with various donor requirements and objectives. Given the ongoing crisis, startup registrations within Ukraine are limited, placing greater importance on robust monitoring of beneficiaries, particularly when they are registered abroad.

Agricultural machinery and equipment grants

16. **This GoU initiative aims at incentivizing the use of domestic agricultural machinery and equipment.** Officially called the "*programme of partial state compensation for the cost of Ukraine-made agricultural machinery and equipment*", this program aims to support domestic manufacturers of such equipment and to help farmers upgrade their machinery fleet and become more productive. It was initiated in 2017 and relaunched in April 2024 under the broader "Made in Ukraine" program. It compensates farmers for up to 25 percent of the cost of purchased agricultural machinery and equipment made in the country. The MoE oversees the program, maintaining a rapidly-growing list of eligible products, which included 7,780 products from 86 manufacturers by June 2024,[70] while the 31 partner banks facilitate the compensation process.

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[69] The "Made in Ukraine" program includes the establishment of a dedicated product label.
[70] Source : https://www.kmu.gov.ua/en/news/zrobleno-v-ukraini-v-reiestri-silhosptekhniky-dlia-kompensatsii-ahrariiam-dostupna-tekhnika-vzhe-86-ukrainskykh-vyrobnykiv. When the program was relaunched in April 2024, the initial list included 964 products from 21 manufacturers.

17. **The GoU highlights this initiative's current and potential future positive impacts.** According to the MoE, during its first phase this initiative led to a doubling of Ukrainian's product share in the domestic market over 2017-2021.[71] The program reportedly helped attract investment in the sector and led to a 140 percent increase in production (with half of production exported), creating jobs and generating additional tax revenue. The GoU allocated UAH 1 billion to the program in its budget 2024 and expects this to benefit 4,000 farmers, implying an average subsidy of UAH 250,000 or around US$6,200 per farmer.[72] It expects imports of eligible products to decrease by 10 percent, and a thousand new jobs to be created.

18. **However, there are significant risks of unintended negative consequences that should be carefully managed.** Like the cashback consumer subsidy program, this grant program involves risks linked to competitive distortions and inefficient use of public funds, and should be the object of a rigorous cost-benefit analysis. The GoU should also ensure that the program is compatible with Ukraine's WTO obligations, including the GATT's basic principle of national treatment. While it may bring needed short-term benefits in the specific circumstances, it should come with a sunset clause to be phased out as conditions normalize and the emphasis should be put on less distortive ways to increase the competitiveness of domestic agricultural machinery producers. Otherwise, farms may be incentivized to invest in machinery that may not offer the best value compared to foreign products, and domestic manufacturers shielded from competition may become less innovative and competitive. In the meantime, the GoU can help improve the program's design to ensure the efficient use of public resources, which the PforR will support. This includes notably strengthening the program's M&E systems and moving from the current "first-come first-served" process for beneficiary selection to criteria ensuring grants go to agricultural firms needed them the most.

Incentives for Industrial Parks

19. **Through this program, the GoU aims to stimulate the development of industrial parks (IPs) in Ukraine by subsidizing developers' infrastructure-related costs.** The GoU sees IPs as an important catalyst to attract investment in the real sector. Like under the program 'Government support to investment projects with significant investments (Investnanny)' targeting large projects, it will provide grants amounting up to 50 percent of the cost of engineering and transport infrastructure facilities built by IP developers and operators and/or of connecting to electrical and transport networks.[73] The GoU introduced this incentive in response to the identified high cost and difficulty of building infrastructure, particularly in the current context as local governments have little budget for capital investment. It was allocated UAH 1 billion in the 2024 budget. An updated procedure adopted in June 2024 sets a maximum of UAH 150 million per beneficiary, and requires applicants to commit to attracting at least 2 tenant companies within three years of receiving support and putting in operations industrial buildings/facilities on at least 5,000 square meters, or return the grant.[74]

20. **This support program is part of a broader set of incentives provided under the GoU's IP policy.** Ukraine's law on IPs was first introduced in 2012 and updated in 2021 to simplify the establishment of IPs and stimulate their activity (e.g., reduce the minimum size to 10 hectares). In June 2022, amendments to the tax and customs codes were adopted to strengthen the incentive package for IP developers and tenants, including this support focused on infrastructure, which was

[71] Source: https://www.kmu.gov.ua/en/news/zrobleno-v-ukraini-startuvala-onovlena-prohrama-kompensatsii-vartosti-ukrainskoi-ch-tekhniky-ta-obladnannia-iuliia-svyrydenko
[72] The first three agricultural enterprises benefited from the revamped program in May 2024, receiving subsidies of UAH 220,000 for machinery worth UAH 880,000 in total.
[73] This proportion will be brought up to 80 percent for IPs located in de-occupied territory.
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[74] See: https://www.me.gov.ua/News/Detail?lang=en-GB&id=b6e3d21c-d6a4-4974-a275-d290d74b6890

not implemented until 2024 due to the ongoing situation.[75] In February 2023, a new IP strategy for the period 2023-2030 was adopted by decree (GoU 2023), and the MoE has continued working on improving the institutional and regulatory framework governing IPs. The first IP was registered in 2013 and Ukraine's registry of IPs currently includes over 90 IP projects led both by public and private sponsors.[76] However, many of these IPs have existed on paper only so far, and most of the around 10 at least partially operating ones are still seeking to attract tenant companies (Property Forum 2023).

21. **Ukraine should capitalize on the global experience with IPs and special economic zones (SEZs).** Such industrial zones, whether or not they are given a special customs and regulatory regime, have become an increasingly popular tool used by countries to foster industrialization and attract investment. There are thousands of SEZs around the world, many of which were established over the last decade. Some of them have been highly successful, but many others have failed to take off and the global evidence shows that SEZs rarely significantly outperform their host economy. While many context-specific factors determine the fate of SEZ programs, there are useful lessons learned from the international experience. These include (i) adopting a demand-driven approach, (ii) focusing on the best locations, (iii) leveraging host countries' comparative advantages, (iv) ensuring that zones are truly "special" and provide a compelling value proposition in terms notably of business regulations, infrastructure, and services to tenants, and (v) not neglecting issues outside the zones which may affect zone tenants, suppliers and workers (e.g., challenging macroeconomic and governance environment, poor infrastructure and logistics, difficult business environment). In Ukraine, the development of competitive IPs has been hampered by several factors, including the fact that many zone projects, notably those led by local city governments, lack a qualified management company with adequate organizational, technical and financial capacity; the frequent inadequacy of urban planning; and the lack of institutional capacity for planning and M&E at the national- and IP-levels (GoU 2023 Property Forum 2023).

22. **While the provision of incentives can be justified, it is not a silver bullet and entails risks that must be carefully managed.** Like in Ukraine, most SEZ regimes around the world provide some fiscal and customs incentives. While this is often expected by investors, especially if competing investment locations offer such incentives, fiscal incentives can prove expensive for the budget. The experience shows that poorly designed incentives generally fail to generate additional investment. Moreover, even generous ones cannot make up for other shortcomings in the investment climate, such as cumbersome business regulations, poor infrastructure, lack of access to finance, etc. Some observers have argued that SEZs have had distortive impacts in Ukraine since the 1990s, from eroding tax base to rent seeking and creating an unlevel playing field for companies in an outside of zones (VoxUkraine 2022). Their use should therefore be subject to a rigorous cost-benefit analysis and sound selection criteria, which the PforR should support.

eRobota

23. **The eRobota initiative, initiated in July 2022, provides subsidies for the creation and expansion of processing enterprises.**[77] It was established as an alternative to the 5-7-9 program, with the intention of lowering entry barriers for SMEs that face challenges in securing collateral. It provides matching grants of 50 percent (80 percent in areas under the control of the government) of firms' eligible purchases of equipment projects in certain manufacturing sectors (e.g. food, furniture, chemicals, metal products, wood processing, textile). Grants are up to UAH 8 million (US$ 197 thousand) for each

[75] Other incentives include income tax exemption for ten years, subject to reinvestment in the development of the investment project; VAT and customs duty exemption on the import of new equipment for own use; real estate tax exemption for industrial buildings; etc. (See: https://ukraineinvest.gov.ua/en/incentives/industrial-parks/ and (Property Forum 2023).

[76] See: https://www.me.gov.ua/News/Detail?lang=en-GB&id=7c769af0-5113-4059-8f8f-049a6fee6b2e&title=CatalogueOfIndustrialParks-WhereInnovationMeetsInvestment

[77] eRobota also covers two parallel initiatives to support investment in horticulture and the construction of greenhouses, which are managed with the Ministry of Agrarian Policy and Food, and excluded from the Program's expenditure framework. The program managed by MoE includes two funding windows providing micro-grants to microbusinesses.

beneficiary. The objectives are to help the industrial sector rebuild production capacity destroyed, to develop processing and domestic value addition, as well as to generate jobs and tax revenue. Beneficiaries commit to creating and maintaining a certain number of jobs (at least 25 jobs for the maximum grant size), to carry out activities for at least three years, and to pay taxes. The program enforces strict usage of funds, with performance monitored after one year and firms obliged to reimburse the grant if they do not meet these commitments.

24. **A significant number of firms have sought support under eRobota, although the program has remained selective in its allocation of support.** Applications for grants are submitted by firms with a business plan through the Diia.Business portal. They are reviewed by Oschad Bank, the State-owned bank that implements the program jointly with the MoE, which takes final decisions on approving each grant. Upon approval, the firm opens an account and deposits its share of the project to unlock the disbursement of the grant. As of January 1, 2024, a total of 3,086 applications for support under the program had been submitted, 807 of which had been approved for grant support for a total amount of UAH 4,1 billion. The MoE estimates this support has led to the creation of over 8,000 jobs.

Entrepreneurship and Export Promotion Office

25. **The Entrepreneurship and Export Promotion Office (EEPO) is the GoU agency supporting SME's development and access to foreign markets.** It is managed by the Economic and Financial Department of the Secretariat of the Cabinet of Ministers of Ukraine, and was initially established as the Export Promotion Office in 2015. The agency's budget was taken over by the GoU in 2019, although it still benefits from donor support. Its mandate was expanded to cover entrepreneurship and SME development in 2021, reflecting the government's commitment to foster the development of SMEs and growth of goods and service exports. The EEPO provides a range of advisory, educational and analytical services, including some targeting women, and organizes trade missions abroad and international expositions in Ukraine. The EEPO has been involved in developing Ukraine's new SME strategy, under preparation since end 2023. Since 2019, the EEPO is a member of the network of European Trade Pomotion Organisations (ETPOs) and of the EU's Enterprise Europe Network. The EEPO aims to capitalize on international best practices for business support agencies, including from Europe and the US.[78]

26. **The EEPOs has managed to reach a substantial number of companies seeking to export.** As of 2023, the EEPO had a staff of about 45 people. According to agency figures, as of May 2024, it had 8,600 registered companies in its database that plan to enter or expand in international markets, with a breakdown between micro/small/medium and large firms of 46, 30, 17, and 7 percent respectively. Each year, it supports the participation of over a hundred Ukrainian companies to around 10-12 international trade exhibitions, enabling in 2023 the signature of over UAH 350 million in business contracts. Hundreds of SMEs and thousands of people have attended its different online trainings in 2024. The EEPO has systems and procedures in place to vet the firms it supports or invites to events, drawing on national business registries. Among companies seeking to export, it prioritizes those that have been operating for at least three years, and tracks the number of female-headed or owned firms.

27. **The EEPO plays an important role to implement the Diia.Business project, with both online and offline components.[79]** This project was launched by the Ministry of Digital Transformation in 2020, and the EEPOs joined it as implementing agency in May 2021. It aims to provide entrepreneurs with a one-stop shop to set up and expand a business, including in the difficult circumstances. It provides learning resources and case examples, information on administrative requirements, online training courses, free online consultations, a self-assessment tool for entrepreneurs, a catalogue of public and private funding opportunities, resources to export, a database to identify Ukrainian suppliers, etc. In 2024, the EEPOs aims to have 10.9 million visitors on the platform (+110 percent compared to 2023), 83,200 member accounts (+12

[78] See https://business.diia.gov.ua/en/svitovij-dosvid
[79] See: https://business.diia.gov.ua/ . Diia is the GoU's brand and ecosystem for digital government services, which includes other platforms on education and cities.

percent), and provided online consultations for 16,400 SMEs (+18 percent). This is complemented offline by an expanding network of Diia.Business support centers for entrepreneurs, where SMEs can receive free consultations, participate in educational events, rent space for events, etc.[80] Between January and May 2024, these centers had welcomed 24,380 persons and hosted 1,065 events (e.g., training, workshops, B2B events). Moreover, between January and June 2024, 2,868 consultations (online and offline) have already been provided.

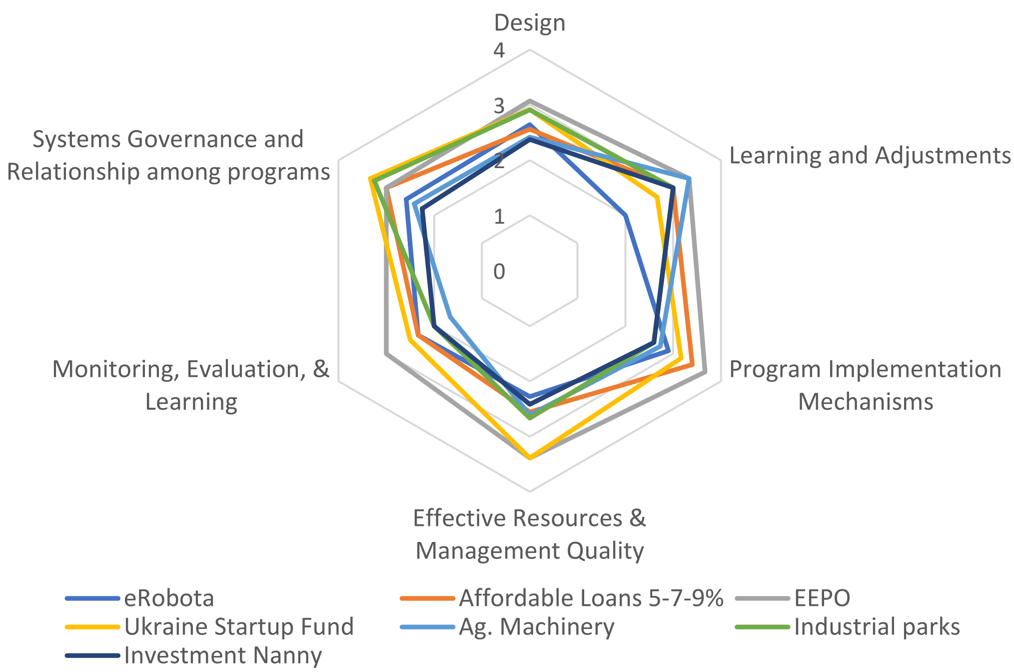
Export Credit Agency

28. **The Export Credit Agency (ECA) is a public company aiming to reduce the risks of export operations and expand exporters' access to finance.** It was established in 2018 as a joint stock company fully owned by the GoU and managed by the MoE, and is regulated since 2023 by the National Bank of Ukraine as a special status insurer. The framework law governing the ECA's activities has been significantly amended in 2023, removing several impediments to its effective operations. Over the past two years, it has provided growing support to exporting firms facing mounting challenges, notably SMEs, in a context of declining exports and increasing trade deficit. As of end-April 2024, the ECA had supported a total volume of exports of US$ 317 million, with insurance coverage totaling US$ 26.5 million. Over the last years, it has supported 109 firms (2 in 2020, 6 in 2021, 33 in 2022, 74 in 2023 and 16 in the first 4 months of 2024). The ECA's insurance capacity is limited by its authorized capital, currently UAH 2 billion, which the GoU seeks to increase.

29. **The ECA is currently working on strengthening its strategic framework and product offering.** The ECA provides insurance, reinsurance and guarantees for export contracts, as well as for direct investments related to exports. Its three main products are currently export credit insurance (individual), export credit insurance (portfolio), and insurance of receivable on export contracts. Around 90 percent of the portfolio consists of pre-financing insurance used to alleviate banks' collateral requirements vis-à-vis SME exporters, and the remaining 10 percent relates to account receivables insurance. The leading sectors benefiting from the ECA insurance cover are furniture, food and electrical equipment (e.g., semiconductors, electrical wiring). In 2024, the ECA started covering war risks by offering insurance and reinsurance of investments by international and Ukrainian companies against military and political risks.

[80] 11 Diia.Business centers were opened before February 2022. As the situation unfolded, some centers have continued functioning while others moved to offline operations. In May 2022, a Diia.Business center was opened in Warsaw (Poland).

Figure 2. Scores of private sector support programs in Ukraine, by functional analysis category (0-5 best)



Source: World Bank staff calculations.

ANNEX 9. CLIMATE ANNEX

DLI/DLR	Contribution to Mitigation	Contribution to Adaptation
Results Area 1. Improving efficiency of state support to SMEs, with a focus on green competitiveness		
DLI 1. Improving efficiency of state support to SMEs, with focus on green competitiveness		
DLR 1.1: USD 200 mln loans issued under the redesigned 5-7-9 credit program (40 mln of it in loans to female headed firms) (scalable)	- Mobilizes significant private capital towards environmentally sustainable businesses, promoting investment in green technologies and practices. - Supports projects that reduce GHG emissions through the adoption of low-carbon technologies and renewable energy sources. - Promotes energy-efficient practices among SMEs, leading to overall reductions in carbon emissions. - Mandates that recipient SMEs must also comply with ESG requirements, contributing to climate mitigation efforts by ensuring that these enterprises adopt sustainable practices, reduce their carbon emissions, and implement environmentally friendly operations, thereby helping to combat climate change and promote a low-carbon economy. - Prioritizes energy efficiency practices and renewable energy loans, leading to lower GHG emissions. - The ESMS of the BDF excludes coal mining and coal-fired power plants due to their heavy greenhouse gas emissions and severe environmental degradation. - Chemical manufacturing and pesticide production projects are also avoided because of their high GHG emissions and high potential for environmental contamination from spills. - Logging in primary forests is excluded as it causes deforestation, loss of biodiversity and significant climate impacts by reducing carbon sequestration. - Potential examples of funded projects include establishing solar farms and wind turbines in rural and coastal areas to provide renewable energy, significantly reducing	- Increases resilience of more climate and crises vulnerable groups (female-headed firms) by providing targeted financial support, recognizing the heightened vulnerability of women to climate risk and enhancing their capacity to adapt to climate impacts. By offering loans specifically targeted for women led SMEs across Ukraine, this initiative ensures that female entrepreneurs can access the capital necessary to invest in climate-resilient technologies, infrastructure, and practices. This financial empowerment helps businesses mitigate and adapt to specific climate risks such as extreme weather events (floods, heatwaves, and storms), prolonged droughts, and temperature fluctuations. These measures not only safeguard their businesses against the adverse effects of climate change but also enhance the economic stability and resilience of women, empowering them to sustain their livelihoods and contribute to their communities' overall resilience. - Diversifies the economic base by supporting a variety of firms, reducing overall economic vulnerability by spreading risk across different sectors, enhancing resilience to sector-specific climate impacts, and fostering a robust and flexible economy that can better withstand and recover from climate-related disruptions - Mandates that recipient SMEs must also comply with ESG requirements, contributing to climate adaptation efforts by ensuring that these enterprises adopt resilient practices, enhance their capacity to cope with climate-related impacts, and implement strategies to safeguard their operations against climate risks, thereby promoting

	greenhouse gas emissions and promoting sustainable energy sources. - Upgrading buildings with energy-efficient systems and implementing efficient industrial processes to reduce energy consumption and emissions, contributing to climate change mitigation.	overall sustainability and resilience in the face of changing environmental conditions. - The ESMS of the BDF excludes coal mining and coal-fired power plants due to their heavy greenhouse gas emissions, severe environmental degradation and toxic emissions, which exacerbate climate change, hinder adaptation efforts, and pose significant health risks to local communities through air and water pollution. - Chemical manufacturing and pesticide production projects are also avoided because of their high GHG emissions and potential to disrupt ecosystems, making it harder for communities to adapt to changing climate conditions and leading to adverse health effects from chemical exposure and environmental contamination. - Logging in primary forests is excluded as it causes deforestation, loss of biodiversity, and significant climate impacts by reducing natural resilience and the ability of ecosystems to adapt to climate changes. - Potential examples of funded projects include the construction of levees and advanced drainage systems to protect infrastructure from floods, while introducing drought-resistant crops and efficient irrigation to ensure food security and water conservation, enhancing resilience to climate change. - Planting trees in degraded areas to enhance carbon sequestration and biodiversity, while building climate-resilient infrastructure like roads and bridges to withstand extreme weather, reducing vulnerability to climate impacts.
DLI 2. Enhanced compliance of SME financing programs with ESG requirements		
DLR 2.1: BDF's Supervisory Board adopted its Environmental and Social Policy	- Ensures SME financing programs align with ESG standards, reducing environmental harm and promoting sustainable practices. - Integrates environmental considerations into financial decision-making, leading to investments that mitigate GHG emissions. - Promotes the adoption of green technologies and practices through ESG-compliant financing, supporting the transition to a low-carbon economy.	- Strengthens the capacity of SMEs to manage environmental risks, enhancing their resilience to climate change impacts and evolving environmental standards. - Encourages that financed projects are environmentally and socially sustainable, reducing vulnerability to climate-related disruptions. - Drives continuous improvement in environmental performance among SMEs,

	- Institutionalizes strong environmental and social governance, ensuring that all financed projects adhere to environmental standards. - Sets a precedent for other financial institutions to adopt similar policies, amplifying the impact on climate mitigation. - Enhances the overall sustainability of SME support programs, leading to broader adoption of green practices.	fostering long-term adaptive capacity and compliance with regulatory requirements. - Provides a governance framework for ongoing monitoring, evaluation, and adaptive management of environmental and social risks. - Promotes ongoing learning and adaptation through regular policy reviews and updates, ensuring continuous improvement in response to climate challenges.
DLR 2.2: At least 20 banks accounting for 90 percent of the overall 5-7-9 lending volume adopted Environmental and Social Safeguards Policies (scalable)	- Mandates that funded projects comply with environmental standards that promote lower emissions, thus directly contributing to climate mitigation. - Prioritizes investment in projects that utilize renewable energy and energy-efficient technologies. - Ensures that lending practices support projects aligned with sustainability standards, reducing the overall environmental and emissions footprint. - Supports the development of projects that aim to use resources more efficiently, thereby reducing waste and emissions. - Holds banks and borrowers accountable for their environmental impact, fostering a culture of continuous improvement in emissions reduction.	- Ensures that banks incorporate environmental and social risk assessments into their lending practices through adoption of an ESMS[81], enhancing the resilience of funded projects to climate impacts. - Helps SMEs become more resilient to climate-related disruptions by ensuring that funded projects incorporate adaptation measures. - Supports SMEs in meeting environmental and social standards, making them better prepared for regulatory changes related to climate adaptation. - Promotes the adoption of sustainable practices that increase the long-term viability of businesses in the face of climate change. - Enhances the capacity of financial institutions to support projects that include climate adaptation strategies.
Results Area 2. Improving the Business Environment and G2B Digital Services		
DLI 3. Simplified business regulation, including investment facilitation framework for the green economy		
DLR 3.1: Diia.Business Portal 2.0 launched (accessible online to users) with functionalities in compliance with the TORs of the EEPO	- Digitalizing G2B services reduces the need for physical paperwork and travel, thereby lowering carbon footprints, and reduces administrative burden and enhances transparency, leading to more efficient	- Streamlines regulatory procedures, making it easier for businesses to adapt to changing environmental regulations and standards. - Increases the number of firms using digital platforms, enhancing their ability to manage environmental risks and improve resilience. - Enhances transparency and reduces corruption, fostering a more stable and predictable business environment more resilient to shocks (including climate).

[81] ESMS' provide for a clear environmental and social policy statement, effective procedures, and adequate capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risks in a responsible manner. Additionally, the ESMS will include provisions for evaluating and addressing both climate mitigation and adaptation, ensuring that subprojects contribute to reducing greenhouse gas emissions and promoting sustainable practices, while also enhancing resilience to climate-related impacts. Before the respective bank adopts the ESMS, it will be cleared by the BDF. The application of the ESMS will be included as a legally binding provision in the loan agreement between the banks and SMEs.

	resource use and lower emissions from bureaucratic processes.[82][83] - Facilitates the development and scaling of green businesses by providing necessary digital tools and platforms. - Improves resource use efficiency through digital solutions, contributing to overall emission reductions. - Streamlines regulatory procedures, ensuring businesses adopt more sustainable practices by reducing compliance costs and time. - Hardware, software, system installation and upgrading will meet energy efficiency standards in Ukraine further leading to emission reductions.	- Supports the creation of digital infrastructure that can quickly adapt to and recover from climate-related disruptions. - Streamlines regulatory procedures and reduces the need for physical paperwork and travel, enhancing operational efficiency during climate disruptions.
DLR 3.2: (i) 500,000 unique visits of the Diia.Business Portal 2.0, and (ii) 90,000 registered accounts (scalable)	- See DLR 3.1	- See DLR 3.1
DLR 3.3: FDI Strategy adopted by the Cabinet of Ministers, including (i) focus on the green economy, and (ii) plans to modernize the investment policy and promotion framework, including capacity building of the	- Directs foreign investments towards green technologies and renewable energy projects, reducing overall emissions. - Attracts investments in projects that improve energy efficiency across various sectors. - Facilitates the adoption of green technologies and practices by promoting investments in the green economy. - Ensures that FDI projects meet high environmental standards, contributing to lower emissions.	- Encourages investments in green sectors that are resilient to climate impacts. - Promotes the development of infrastructure projects that are designed to withstand climate-related disruptions. - Attracts foreign direct investment into a variety of sectors, reducing vulnerability to climate change by diversifying the economy. - Ensures that incoming investments are aligned with sustainable and adaptive practices within the green sector, enhancing long-term resilience.

[82] A GHG analysis of the DLRs supporting the digitalization of G2B services, such as the launch of the Diia.Business Portal 2.0 and the full deployment of the E-permit G2B digital platform, revealed that the activities supporting the digitalization of business entry, operation, and exit procedures, along with the simplification of regulatory processes and adoption of hardware and software in compliance with Ukraine energy efficiency standards, will significantly reduce carbon-intensive activities, such as travel and paper use associated with administrative compliance, resulting in 9,945 tCO_2 fewer emissions and equivalent to a 22.4 percent reduction from the baseline scenario. The GHG analysis was conducted by the World Bank task team in August 2024, and validated by the GHG Team of the World Bank in September 2024.

[83] This footnote provides a summary of the growing literature confirming that the digitalization of G2B services significantly reduces carbon intensity (CI) and improves carbon emission performance, including the study from Feng, Y. et al. using panel data from 186 countries from 2003 to 2020. Additional selected sources include: 1) Yanchao F., Gaoxiang L., Xiangxu M., Kai J., Rongbing H., Ci ., Jiaxin S., Yuxi P. (2024) How does digital government affect carbon intensity at the global level? New perspective of resource allocation optimization. Resources Policy, Volume 94, 2024, 105108, ISSN 0301-4207 (https://www.sciencedirect.com/science/article/pii/S0301420724004756), 2) Yunhui W., Xuan Z., Feiyang L., Meijuan P. (2023) The role of digital governance on carbon emission performance: evidence from the cities in yangtze river delta, China. Published by IOP Publishing Ltd Environmental Research Communications, Volume 5, Number, 3) Balogun A., Marks D., Sharma R., Shekhar R., Balmes C., Maheng D., Arshad A., Salehi P. (2020) Assessing the Potentials of Digitalization as a Tool for Climate Change Adaptation and Sustainable Development in Urban Centres, Sustainable Cities and Society, Volume 53, 2020, 101888, ISSN 2210-6707 (https://www.sciencedirect.com/science/article/pii/S2210670719307267), 4) Chowdhury, G. (2012), How digital information services can reduce greenhouse gas emissions, Online Information Review, Vol. 36 No. 4, pp. 489-506. https://doi.org/10.1108/14684521211254022.

Investment Promotion Agency	- Promotes innovation in sustainable technologies and solutions, driving down the carbon footprint of the economy. - Creates jobs in renewable energy, energy efficiency, and other green sectors, supporting the transition to a low-carbon economy and fostering sustainable economic growth. - The new FDI Strategy will prioritize attracting high-quality foreign direct investment in sectors aligned with the EU's green transition plans, such as renewable energy, critical minerals, automotive, and electronics. It will emphasize investments in high-value-added segments of these sectors' value chains to support climate goals. - Identify and overcome obstacles to increase foreign direct investment in climate-focused sectors, such as renewable energy, critical minerals, sustainable automotive, and electronics.	- Generates employment opportunities in green sectors[84], which are more resilient to climate impacts. These jobs support economic stability and provide workers with skills and knowledge that are crucial for adapting to and mitigating climate change.
Results Area 3. Enabling SMEs access to export markets		
DLI 4. Enabled SMEs access to export markets		
DLR 4.1: 20,000 SMEs received business consulting services (online or face-to-face) from EEPO (scalable)	- One of the main aims of these consulting services is to enhance SMEs' adoption of energy-efficient and sustainable practices, ensure compliance with environmental regulations, reduce emissions through operational efficiencies, and educate entrepreneurs on sustainable development, supported by resources like courses, catalogs, handbooks, and future tools for ESG readiness. - Enables SMEs to adopt energy-efficient and environmentally friendly practices through consulting services.	- These consulting services aim to enhance SMEs' capacities to adapt to climate-related risks and disruptions by providing tailored strategies, improving climate resilience through training and knowledge sharing, advising on sustainable resource management, and offering comprehensive resources like courses and handbooks on sustainable development and ESG readiness. - Provides SMEs with strategies to adapt to climate-related risks and disruptions. - Offers tailored consulting to help businesses in various sectors adapt to climate impacts,

[84] Green economic sectors refer to industries focused on sustainability, such as renewable energy, energy efficiency (green buildings, smart grids), sustainable transportation (electric vehicles, public transit), water management, waste management and recycling, sustainable agriculture and forestry. These sectors use renewable resources, efficient energy consumption, and technologies that reduce carbon emissions and improve climate adaptability. They are also defined as industries in which firms predominantly produce Green Products. Green Products are those with environmental (and climate) benefits, such as "goods and services to measure, prevent, limit, minimize or correct environmental damage to water, air and soil, as well as problems related to waste, noise and eco-systems. This includes cleaner technologies, products and services that reduce environmental risk and minimize pollution and resource use" (OECD, 1999). For example, Green Products, designed for minimal environmental impact throughout their lifecycle, include energy-efficient appliances, eco-friendly consumer goods, renewable energy systems, water-saving devices, and sustainable apparel, etc. For SMEs, increasing their presence in green sectors and using or producing green products is essential for reducing their carbon footprint, enhancing resilience to climate impacts, and contributing to long-term sustainability and climate change mitigation and adaptation. A comprehensive list of Green Products is available in Andres, P and Mealy, P (2023) Green Transition Navigator, retrieved from www.green-transition-navigator.org, and in Mealy, P and Teytelboym, A (2022) "Economic complexity and the green economy", Research Policy, Elsevier, October 2022, available at https://www.sciencedirect.com/science/article/pii/S0048733320300287#sec0022.

	- Helps SMEs comply with environmental regulations and sustainability standards, promoting long-term emission reductions. - Reduces operational inefficiencies that contribute to higher emissions, promoting more sustainable business models. - Includes several courses and trainings on sustainable development and energy efficiency, including the "Business: Sustainable Development" online course, which educates entrepreneurs on integrating sustainable practices into their business models. The course covers essential topics such as determining sustainable development goals, implementing innovations, and effective communication of progress, supported by examples from Ukrainian companies. Additionally, an online catalog of 60 energy efficiency innovators showcases businesses dedicated to advancing energy-efficient technologies and IT solutions in Ukraine. - The materials in the Entrepreneur's Handbook on sustainable development goals and sustainable solutions also provide valuable resources for businesses aiming to mitigate their environmental impact. - Future plans include developing a section on ESG and sustainable development, featuring a self-test for entrepreneurs and tools for assessing and enhancing their ESG readiness.	such as changing weather patterns and resource availability. - Improves the adaptive capacity of SMEs through training and knowledge sharing on climate resilience practices. - Advises on sustainable resource management, reducing vulnerability to climate-induced resource scarcity. - Includes several courses and trainings on sustainable development, including the "Business: Sustainable Development" course, which helps entrepreneurs understand and apply sustainable business strategies. This course includes lessons on integrating sustainable development goals, assessing company readiness for ESG, and leveraging innovative solutions to adapt to changing environmental conditions. - Materials in the Entrepreneur's Handbook provide further resources and examples for businesses looking to adapt their operations to more sustainable practices. The Handbook includes sections on sustainable development goals and sustainable solutions, offering comprehensive guidance. - Future plans also include developing a section on ESG and sustainable development, which will offer a self-test for entrepreneurs to evaluate their readiness for ESG implementation and provide tools for integrating ecological, social, and managerial approaches into their business models.
DLR 4.2: New ECA strategy adopted providing for broadening of ECA’s product offering (including war risk insurance), integrating environmental sustainability into ECA's policies and products as well as for development of a robust M&E framework.	- Ensures SMEs align with EU sustainability standards, ensuring their products are environmentally friendly and therefore less resource and emissions intense. - Directs investments towards green technologies and practices, fostering a low-carbon economy. - Offers incentives for SMEs to adopt sustainable practices and technologies. - Prioritizes green projects in renewable energy, energy efficiency, and other green sectors, significantly leading to emission reductions. - - ECA will provide preferential insurance rates and extended insurance terms for companies exporting solar panels and wind turbines. This support helps reduce the	- Enables the development and export of climate-resilient products and services, enhancing the adaptive capacity of SMEs. - Includes training and resources for SMEs to adapt their operations and products to meet changing climate impacts. - Supports the greening of cross-border trade, especially in renewable energy, energy efficiency, and other green sectors, ensuring that businesses can adapt to and thrive in a low-carbon economy. - Introduces mechanisms for measuring and monitoring social and environmental risks, helping businesses to adapt by identifying and mitigating potential climate impacts. -

	global carbon footprint by promoting renewable energy sources. - ECA offers lower interest loans for companies exporting energy-efficient building materials and technologies, such as insulation products or smart home systems that reduce energy consumption. - Integrates environmental sustainability into ECA's policies and products, aligning with international best practices to ensure long-term emission reductions (Incorporating the Equator Principles and IFC Performance Standards into its criteria) - Includes environmental, social, and governance criteria in products, ensuring thorough measurement and reduction of environmental risks for all projects. - ECA will develop a new line of products specifically designed for green projects that provide better terms for projects meeting specific environmental and climate criteria. - Before approving insurance for a large infrastructure project, a comprehensive environmental impact assessment must be conducted. This includes evaluating potential impacts on local biodiversity, climate change, and community health, ensuring that only environmentally sound, low emission projects receive support. - Trains employees and customers on sustainable finance, promoting the adoption of practices that lower emissions. - Works with international organizations to promote green finance best practices, fostering a culture of sustainability and innovation in reducing emissions. - Maintains transparency in reporting on environmental and social impacts, ensuring accountability and continuous improvement in emission reduction efforts. - Supports future plans to introduce special tools to support green Ukrainian exports, stimulating businesses to adopt low-carbon technologies and practices, and facilitating the transition to a low-carbon economy. -	- Before approving insurance for a large infrastructure project, a comprehensive environmental impact assessment must be conducted. This includes evaluating potential impacts on local biodiversity, climate change, and community health, ensuring that only environmentally sound, climate informed and resilient projects receive support. - Collaborates with international organizations to promote best practices in green finance, strengthening the resilience of businesses to climate change through shared knowledge and resources. - Fosters green jobs in export-oriented sectors, which are more resilient to climate impacts and support long-term economic stability.
DLR 4.3: 10 export-oriented projects of SMEs covered by	- See DLR 4.2	- See DLR 4.2

ECA including for war risk in line with new ECA strategy (scalable)		

ANNEX 10. ECONOMIC ANALYSIS

This Annex presents the analysis of the costs and benefits of the project for each of the three DLIs that result in monetary outcomes (DLIs 1, 3 and 4), generally through increased sales, exports, and investment. The information about costs has been provided by the government.

1. Costs

While acknowledging that WBG financing amounts to US$550 million, this assessment takes the full Government program cost into account. Given that program components include activities that are subject to taxes – which go back to the government fiscal accounts – the market cost of the program is adjusted by a tax factor when applicable, resulting in a social cost of the government program, which is net of taxes. The estimated social cost of the program is US$1.7 billion. The only tax adjustments pertain to MOE salaries and support to EEPO, as these involve services and are likely subject to the labor tax (18%)[85]. It is assumed that the rest of the budget goes into SME grants and loans that are not subject to taxes.

Table 1: Social costs of the government program (USD mm)

	Market cost (USD mm)	Adjustment factor	Social cost (USD mm)
Affordable Loans 5-7-9%	1,448.3	100%	1,448.3
Support for Domestic Demand for Local Goods and Services	69	100%	69
Innovation Development Fund	-	100%	-
Agricultural machinery and equipment grants	23	100%	23
Industrial Parks	23	100%	23
eRobota	81.9	100%	81.9
Investment Nanny	69	100%	69
MOE Salaries	39.3	85%	33.4
EEPO	3.4	85%	2.9
Total	**1,757**		**1,750**

Note: Minor differences with the total expenditure program in US$ are explained by exchange rate conversion. Exchange rate used UAH 43.5 per US$.

2. Benefits of WBG project

The assessment of benefits is related to DLIs 1, 3 and 4, as DLI 2 mainly focuses on compliance with ESG requirements. The following paragraphs detail the analysis conducted for each DLI. Due to the extent of uncertainty, the analysis contemplates three scenarios for every DLI: pessimistic, conservative (or baseline) and optimistic.

2.1. DLI 1. Improving efficiency of state support to SMEs, with focus on green competitiveness

The monetary impact of this DLI is estimated to be between US$840 and US$1,800 million in the next five years. It derives from i) increased sales from beneficiaries in the redesigned government firm support program and ii) the private capital mobilization leveraged via redesigned 5-7-9 credit program, 20 percent of which should result from loans to female headed firms.

Table 2: Benefits from DLI 1 (USD mm)

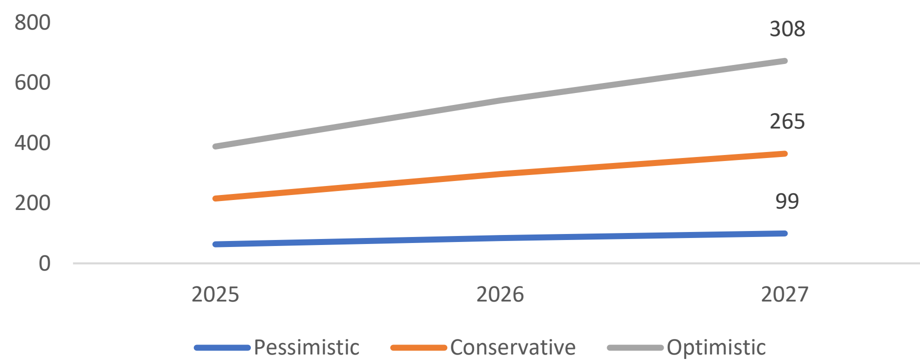
	Pessimistic	Conservative	Optimistic

[85] The general labor tax rate is 18 percent, so the adjustment factor is 0.85 (that is, 1 / 1.18).

Benefits	2,647	3,830	4,726
Sales (2024-2028)	247	630	726
PCM (2024-2028)	600	800	1,000
PCM (2029-2033)	1,800	2,400	3,000

The impact on sales was measured based on available information on the 5-7-9 program and the Business Pulse Survey. Considering the financing allocation for this component is US$100 million and knowing that the average loan amount has been UAH 2.7 million (equivalent to US$ 66,650[86]) for a three-year term loan (KPMG), 1,500 beneficiaries could be reached for support. The annual turnover or sales for the average borrower is UAH 13.8 million (equivalent to US$ 340,660). To estimate the impact of the program on sales, we assume a "no program" scenario with a constant negative growth rate in sales of -15% (BPS). This scenario is compared to three possible "with program scenarios" to get the impact: pessimistic, -7% (BPS), conservative, 1%, optimistic, 3%. The latter two are assumptions based on the program redesign to improve effectiveness.

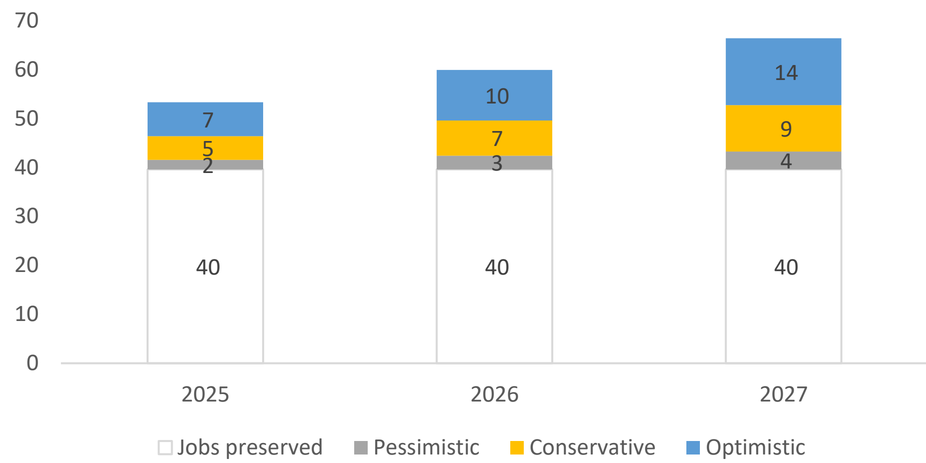
Figure 1: Benefits from increased sales (USD mm, accumulated)



The impact on employment accounts for job preservation and creation. SME support programs during crises aim at relieving small businesses of stress brought by the shock, on one side, and building resilience by better preparing businesses for shocks, on the other side (ILO 2021)[87]. To account for the first impact channel we assume that, in the absence of working capital loans (around 80% of program loans), eligible firms would go bankrupt. Given that the average borrower employs 33 people (KPMG), the impact of the program accounts for preserving the 33 jobs in 2024, for each of the 1,500 beneficiary SMEs. The second impact channel has been proven by independent studies (KPMG, BPS), which estimated an increase in sales and/or employment among firms that accessed SME support. We assume a "no program" scenario with a constant negative growth rate in employment of -4% (BPS). This scenario is compared to three possible "with program scenarios" to get the impact: pessimistic, -2% (BPS), conservative, 1% (KPMG), optimistic, 3%. This growth rates account for job maintenance relative to a potential reduction in employment as well as job creation.

[86] The assumed exchange rate is UAH 40.5 per USD.
[87] ILO (2021) A framework to support small firms in developing countries navigate crises and build resilience. International Labour Office – Geneva: ILO, 2021 ISBN: 978-9-22-035849-8 (web PDF).

Figure 2: Impact on employment (thousand jobs, yearly)



The impact on PCM is based on DLR 1.1. The PCM estimate for the 5-7-9 Program contribution is projected to reach US$1 billion between 2024 and 2026. To be conservative, we expand the contribution period to 2027. Moreover, we assume this PCM is fully achieved in the optimistic scenario, whereas a conservative scenario assumes only US$800 million are reached, and the pessimistic scenario assumes US$600 million. Given the impact that the program will have on increasing the effectiveness of SME support programs and the performance of beneficiary firms, as well as the investment needs forecasted for the coming years, we also assume that up to US$3 billion of additional PCM could materialize by 2033 (US$3 billion in an optimistic scenario, US$2.4 billion in a conservative scenario and US$1.8 billion in a pessimistic scenario). Since 20 percent of PCM contribution is expected to originate from loans to female headed firms, we assume that 20 percent of loans go to female headed firms, with a resulting proportional increase in sales and employment.

2.2. DLI 3. Simplified business regulation, including investment facilitation framework for the green economy

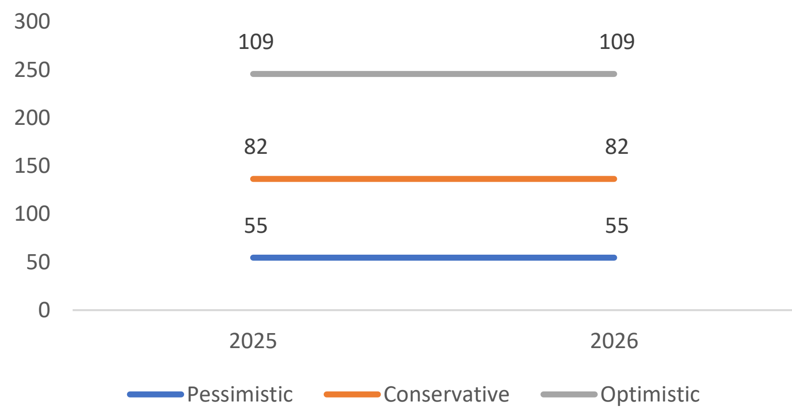
The monetary impact of this DLI is estimated to be between US$4.6 and US$10.7 billion in the next five years. It derives from i) increased exports facilitated through the EEPO and Diia.Business Portal 2.0, ii) firms savings derived from the e-permit system, and iii) FDI inflows due to the adoption of the FDI strategy.

Table 3: Benefits from DLI 3 (USD mm)

	Pessimistic	Conservative	Optimistic
Benefits	**15,098**	**15,147**	**15,195**
Exports (2024-2028)	98	147	195
Business savings (2024-2028)	0.1	0.1	0.1
FDI (2024-2028)	4,500	7,500	10,500
FDI (2029-2033)	10,500	7,500	4,500

The impact on exports was measured based on DLR 3.2. and past results achieved by the Diia.Business Portal. According to information provided by the government, 1,900 businesses were supported to export through the Diia.Business Platform between 2022 and 2023, 72,000 Ukrainians used Diia's services, and a total of US$14 million were signed in export contracts. Assuming the 72,000 Ukrainians that used Diia's services are mainly businesses, we estimate that 3% of the firms that accessed Diia's services signed export contracts in the past. Considering that the number of firms could have been lower (i.e., and be natural people instead), we assume an efficacy premium of 2 additional percentage points. Taking DLR 3.2's established 590,000 target of business entities using Diia.Business Portal 2.0, and assuming this number is evenly distributed between 2025 and 2026, 14,750 firms could be signing export contracts each year for an average contract amount of US$7,400. The expected results are shown in the figure below. Scenarios are estimated assuming probabilities of success of 50% (pessimistic), 75% (conservative) and 100% (optimistic).

Figure 3: Benefits from increased exports (USD mm, yearly)



Business savings derived from the use of an e-permit system are estimated to be US$45,000 a year. Savings potential for a service that seems equivalent to the e-permit systems were estimated at UAH 28.2 million in 2021 relative to real savings of UAH 1.26 million (Ministry of Digital Transformation of Ukraine et al 2021).[88] Based on this amount, knowing that the number of business entities in 2021 were 1.96 million, and assuming that 80% need one permit in a year of operations, the resulting savings potential per business entity is estimated at US$0.44 per permit. Given the target of 200,000 businesses using the e-permit system, and assuming an even distribution between 2025 and 2026, the estimated yearly impact is US$45,000 a year. This is considered conservative given that firms could require many permits during the year.

The FDI strategy adopted by the Cabinet of Ministers is assumed to result in between US$4.5 and US$10.5 billion in FDI inflows in 2028. According to Ukraine National Economic Strategy, the government expects to enable US$15 billion in FDI inflows in 2026. Based on this, scenarios are estimated assuming probabilities of success of 30% (pessimistic), 50% (conservative) and 70% (optimistic) for the year 2028, assuming a two-year delay to be more conservative in light of current uncertainty. However, we assume that reforms on the business environment and investment facilitation efforts will eventually enable FDI inflow levels that are in line with government expectations, especially during the recovery period. Thus, for each scenario it is assumed that the pending FDI inflows needed to achieve the US$15 billion target materialize by 2033.

2.3. DLI 4. Enabled SMEs access to export markets

[88] Economic and anticorruption impact of eservices. URL: https://tapas.org.ua/wp-content/uploads/2021/01/Economic-and-anti-corruption-impact-of-eServices.pdf

The monetary impact of this DLI is estimated to be between US$2 and US$8 million, derived from increased exports supported by DLR 4.3 and enabled by consulting services, capacity building and ECA's new strategy. The target is that 10 export-oriented projects of SMEs are covered by ECA including for war risk in line with new ECA strategy. Based on historic data provided by ECA, we know that the export credit insurance's average support amount per product was UAH 19 million in 2023 and is forecasted to be UAH 31 million in 2024. We assume the first is a pessimistic scenario, the latter optimistic, and the average between the two is a conservative scenario (UAH 25 million). Moreover, based on ECA's data, we assume a liability (or support) to export ratio of 4 (pessimistic), 6 (conservative) and 10 (optimistic). For instance, in the conservative scenario, UAH 1 of support amount would result in UAH 6 in exports. The average SME would receive UAH 25 million in support, resulting in UAH 156 million in exports. At an exchange rate of UAH 41 per USD, this is equivalent to US$3.8 million. Finally, the expected number of jobs created by these 10 SMEs is close to 500.

Table 4: Benefits from DLI 4 (USD mm)

	Pessimistic	Conservative	Optimistic
Benefits	2	4	8
Exports	2	4	8

3. Net present value

Overall, the estimated net present value amounts to US$2.8 billion in a pessimistic scenario, using a 6 percent discount rate for a 5-year horizon, and an estimated economic internal rate of return (EIRR) of 67 percent. A sensitivity analysis shows that conservative conditions would result in a NPV of US$5.8 billion and optimistic conditions could result in an NPV of up to US$8.5 billion. The analysis considers a short time horizon due to the ongoing situation. However, assessing a 10-year period would add US$9.9 billion in investment, resulting in an NPV of US$10.1 billion in a pessimistic scenario, and corresponding EIRR of 73 percent.

Table 5: Summary NPV assessment (USD mm)

	Pessimistic	Conservative	Optimistic
Benefits derived from DLIs			
DLI 1. Improving efficiency of state support to SME	**2,647**	**3,830**	**4,726**
Sales (2024-2028)	247	630	726
PCM (2024-2028)	600	800	1,000
PCM (2029-2033)	1,800	2,400	3,000
DLI 3. Simplified business regulation and investment facilitation	**15,109**	**15,164**	**15,218**
Exports (2024-2028)	109	164	218
Business savings (2024-2028)	0.1	0.1	0.1
FDI (2024-2028)	4,500	7,500	10,500
FDI (2029-2033)	10,500	7,500	4,500
DLI 4. Enabled SMEs access to export markets	**2**	**4**	**8**
Program Social Cost	1,750	1,750	1,750
NPV (2024-2028)	**2,831**	**5,780**	**8,478**
EIRR (2024-2028)	**67%**	**127%**	**179%**
NPV (2029-2033)	**10,111**	**11,640**	**12,917**
EIRR (2029-2033)	**73%**	**128%**	**179%**