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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-Aug-2024 | Report No: PIDPA00143

BASIC INFORMATION

A. Basic Program Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Ukraine	EUROPE AND CENTRAL ASIA	P505616	Resilient, Inclusive and Sustainable Enterprise Program for Results
Financing Instrument	**Estimated Appraisal Date**	**Estimated Approval Date**	**Practice Area (Lead)**
Program-for-Results Financing (PforR)	25-Jul-2024	31-Oct-2024	Finance, Competitiveness and Innovation
Borrower(s)	**Implementing Agency**		
Ministry of Finance	Ministry of Economy		

Proposed Program Development Objective(s)

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

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	2,764.66
IPF Component	10.00
Other Costs (Front-end fee,IBRD)	0.14
Total Financing	**2,304.80**
Financing Gap	**470.00**

FINANCING

Total World Bank Group Financing	**550.00**
World Bank Lending	550.00
Total Government Contribution	**744.80**
Total Non-World Bank Group Financing	**1,010.00**
Private Capital and Commercial Financing Amount	1,000.00
of which Private Capital	1,000.00
Trust Funds	10.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

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.

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, faced with a possible extended duration of the war and growing uncertainty about the magnitude and timing of external aid inflows, Ukraine seeks to reduce its aid dependence and use existing aid inflows to stimulate growth.

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. 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 submitted in 2021, Ukraine committed to the economy-wide reduction of GHG emissions by 65percent (compared to the 1990 levels) by 2030, including Land Use, Land-Use Change and Forestry.

Sectoral and Institutional Context

5. **Businesses, in particular small and medium sized enterprises (SMEs)[1], 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)[2] 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.[3] 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).[4] 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

[1] 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.
[2] *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*
[3] World Bank, "Ukraine: Firms through the War," November 2023, Link.
[4] World Bank, "Ukraine: Firms through the War," November 2023, Link

Government of Ukraine (GoU) in the immediate aftermath of Russia's invasion 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.

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)[5] of the overall policy mix and program portfolio of the Ministry of Economy in support of SMEs, with the objective of institutionalizing systemic monitoring and evaluation and policy recalibration mechanisms related to the private sector. 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. 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.[6] Relatedly, the program has played a significant role in preserving jobs. SOBs account for around 45 percent of overall 579 supported lending volume.[7] 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 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 and (ii) further targeting the lower end of medium-sized enterprises. Reforms of

[5] 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. 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.

[6] 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.

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

the 5-7-9 Program are accompanied by measures to strengthen the BDF's effectiveness and sustainability, 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 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[8] 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[9]. Additional steps include adoption of an institution wide Environmental and Social Policy by BDF's majority independent 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 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.[10] 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.[11] 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

[8] 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.
[9] 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.
[10] World Bank, "Ukraine: Firms through the War 2.0", June 2024.
[11] 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.

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 economy can theoretically produce and actual output – currently stands at between 20 and 25 percent of actual output.[12] 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, as envisaged by the ACAA Agreement between the EU and Ukraine, 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.

PforR Program Scope

13. **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,[13] 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.

[12] NBU 2023.
[13] 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 Industrial Parks Program, the "Investnanny" Program, 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).

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.

14. **The Program finances both investment and advisory activities to achieve the reforms and results and aligned with the priorities of the overall program of the GoU.** 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.

15. **The PforR Program is well-positioned to support the GoU's ongoing efforts to improve the design of its business support programs.** The Program will improve the functional design of the firm support programs included in the Operation (full list in footnote 16) to maximize their impacts and ensure the efficient use of public funds. In particular, the Program will focus on improving the functional design quality of the business support programs, which is rated as intermediate according to Phase 1 of the Policy Effectiveness Review (PER) 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). The Program will support the improvement of the following functional design features, among others, across all firm support programs: (i) introduction of cost-benefit analysis to justify programs, (ii) adoption of M&E systems to measure the achievement of attributable results at the program-level, (iii) introduction of regular recalibration mechanisms to implement needed adjustments to program design, (iv) build the capacity of program managers and implementation staff, and (v) systematic analysis potential regulatory impediments for programs to achieve their intended objectives. Phase 2 of the PER, also included in the Program, will be instrumental to support further design improvements for each program.

16. **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). In the case of MoE salaries, PEACE will finance the salaries in 2024 while the PforR will cover them in 2025, 2026 and 2027.

17. **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**. It supports implementation of the GoU's National Economic Strategy and Ukraine Plan aimed at fostering economic growth and modernization of the economy and institutions and promote strengthening of public sector capacity, in alignment with the standards and policies of the EU.

The implementation of the operation is supported by a number of development partners through the provision of complementary funding in the form of guarantees and grants. 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.

Results Areas

18. 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, 2) financing and delivery of the redesigned firm support programs, 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 in place. 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.

19. 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. 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[14], through the development of a new FDI Strategy[15] embodying a unified and consensual vision by the GoU. Key interventions include:

[14] Green sectors are defined as those in which firms produce Green Products defined as products with environmental benefits, and are based on a compilation of the APEC, OECD and WTO green goods classifications. The list of Green Products includes 543 products classified at the 6-digit level in HS1992 and can be found at: Andres, P and Mealy, P (2023) Green Transition Navigator. Retrieved from *www.green-transition-navigator.org*, and at Mealy, P and Teytelboym, A (2022) "Economic complexity and the green economy", Research Policy, Elsevier, October 2022 from https://www.sciencedirect.com/science/article/pii/S0048733320300287#sec0022.

[15] The new FDI Strategy will focus on attracting high-quality FDI in priority sectors, such as those concerned by near/re-shoring trends as well as by the EU's green transition plans (e.g. energy, critical minerals, automotive, electronics), and in high-value added segments of their value chains. 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.

1) the launch[16] of the DiiA.Business Portal 2.0 aimed at better supporting firms in developing and scaling their businesses, 2) full deployment of the E-permit G2B digital platform as part of the wider de-regulation action plan, and 3) 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 and exceeding energy efficiency standards in Ukraine), advisory services, consulting technical expertise, and salaries of public officials involved in the deployment of the DiiA.Business Portal 2.0, upgrading of 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, and resource 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, and resource 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.

20. 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[17] (online and through the Entrepreneurs Support Centers) of the EEPO, 2) launch of the new ECA strategy and development of new risk insurance products, 3) financing and delivery of capacity building and technical assistance certification programs to enable SMEs' compliance with harmonized EU product standards, including sustainability standards as well as certification readiness[18]. 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, including sustainability standards.

Investment Project Financing

[16] The website is considered launched when it goes-live: meaning it is officially and formally available to users. The Diia.Business 2.0 portal is part of the wider de-regulation action plan with associated benefits of reduction of administrative compliance burden (time, cost, and resource savings), and increased transparency.

[17] 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.

[18] 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.

21. **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:

22. **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 a Project Implementation Unit (PIU). 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.

23. **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 programs on compliance with EU harmonized product standards.

24. **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 and exceeding energy efficiency standards in Ukraine. It will include, for example, the development of an analytical dashboard for economic forecasting, monitoring, and impact assessments by the MoE, digital platforms for SMEs' self-assessment of carbon footprints, software upgrades for the Register of Investment Projects with Significant Investments, among other initiatives.

25. **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).

C. Proposed Program Development Objective(s)

26. 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

Program Development Objective(s)

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

D. Environmental and Social Effects

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

Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component

27. 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 "Investnanny" and "Industrial Parks" can result in significant environmental risks and impacts and require diligent handling. Therefore, the program ESSA has eligibility criteria that excludes any new major construction or civil works include large industries and roads, involving land acquisition and/or resettlement and or activities that may be used for dual purposes (civilian and military). Along with those, the following activities that have the potential to cause significant risks and impacts will not be financed under this PforR: (i) Program activities that involve large-scale civil works or works that may have an adverse and irreversible impact on the environment; (ii) Program activities in the forest or ecologically sensitive areas; (iii) Activities that are not in compliance with Ukraine environmental legislations; (iv) Activities that involve the use of child or bonded or forced labor or labor involved in any hazardous activities; (v) Activities that involve the destruction or damage to any physical and cultural resources; and (vi) Any land acquisition, physical relocation, and/or involuntary resettlement impacts.

28. **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 program operations manual.

29. **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. The main potential negative social impacts associated with business activities of SMEs include (i) risks related to labor and working conditions of SMEs workers (including vulnerable groups of workers and workplace SEA/SH risks); (ii) land acquisition and resettlement of informal users (while the client government institutions will not directly acquire lands for the Program, the Program may support SMEs that could purchase lands in the market for their businesses, including the development of some industrial parks); (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). The exclusion of vulnerable stakeholders could also happen where stakeholder and citizen engagement processes are weak; (iv) social tensions or conflicts/grievances over the Program if the relevant implementing institutions have inadequate grievance redress systems; and (v) safety risks related to war hazards (such as ERW, landmines and aerial strikes) which could affect business activities. 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 de-occupied territories). 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.

30. **An ESSA has been prepared by the Bank team and will be disclosed by appraisal**. Based on the defined Program boundaries, the ESSA: (a) assesses the different environmental and social effects associated with the Program's activities, including direct, indirect and cumulative effects; (b) assesses the capacity of Government institutions in addressing relevant E&S risks and identify any gaps in implementing E&S measures; (c) compares the borrower's E&S systems—laws, regulations, standards, procedures, and implementation performance—against the PforR core E&S principles to ensure its consistency with the PforR policy; and (d) formulates recommended measures to address any identified gaps and strengthen the borrower's system to manage E&S risks and impacts of the Program (including clear exclusion of activities/expenditures with significant E&S risks and impacts; integration of E&S DLIs and verification protocols; and PAPs (such as E&S staffing and E&S training in key implementing agencies; use of WBG EHSGs relevant to SMEs; stakeholder engagement program; grievance mechanism; and regular and incident reporting). The ESSA will be consulted on-line with different stakeholders including representatives of potential vulnerable groups, taking into consideration the martial law restrictions. The feedback of stakeholders will be incorporated in the ESSA. The ESSA will be disclosed by appraisal.

31. **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).

E. Financing

Program Financing

Source	Amount (US$, Millions)	% of Total Program Cost
Program Cost	**2,744.80**	**98.9**
Program Financing	**2,294.8**[19]	**82.7**
International Development Association (IDA) Credit	300	**10.8**
International Bank for Reconstruction and Development (IBRD)	250	**9.0**
Counterpart Funding	744.8	**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**

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

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