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Report No: PD000047

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$ 1.5 BILLION TO

UKRAINE

FOR THE

GROWTH FOUNDATIONS DEVELOPMENT POLICY OPERATION

March 11, 2024

Macroeconomics, Trade and Investment
Europe And Central Asia

Ukraine

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate effective as of February 28, 2024)

Currency Unit: Ukrainian Hryvnia (UAH)

US$1.00 = UAH 38.42

ABBREVIATIONS AND ACRONYMS

ANs	Agrarian Notes
ARISE	Agriculture Recovery Inclusive Support Emergency Project
ASA	Advisory Services and Analytics
CEO	Chief Executive Officer
CoM	Cabinet of Ministers of Ukraine
CPF	Country Partnership Framework
DPL	Development Policy Loan
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECA	Europe and Central Asia
EFF	Extended Fund Facility
EU	European Union
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
INSPIRE	Investing in Social Protection for Inclusion, Resilience, and Efficiency Project
IOSCO	International Organization of Securities Commissions
KPI	Key Performance Indicators
LDP	Letter of Development Policy
MoF	Ministry of Finance
MWh	Megawatt Hour
NBU	National Bank of Ukraine
NDC	Nationally Determined Contributions
NPLs	Non-performing Loans
NSSMC	National Securities and Stock Market Commission
OECD	Organization for Economic Co-operation and Development
PER	Public Expenditure Review
PDO	Program Development Objective
PPG	Public and Publicly Guaranteed
SAR	State Agrarian Registry
SAS	State Audit Services
SCS	State Customs Services
SDR	Special Drawing Rights
SMEs	Small and Medium Enterprises
SOE	State Owned Enterprise
UAH	Ukrainian Hryvnia
VAT	Value Added Tax
WB	World Bank
WBG	World Bank Group

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UKRAINE

Growth Foundations Development Policy Operation

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P502032	Yes	1st in a series of 2

Proposed Development Objective(s)

The objectives of the operation are to (i) strengthen the economic policy framework to facilitate a structural shift towards sustainable growth; and (ii) enhance macro-financial stability to create a growth-conducive environment.

Organizations

Borrower:	Ukraine
Implementing Agency:	Ministry of Finance

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

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

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**1,500.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	1,500.00

PRACTICE AREA(S)

Practice Area (Lead)	Contributing Practice Areas
Macroeconomics, Trade and Investment	Finance, Competitiveness and Innovation; Energy & Extractives; Transport; Social Protection & Jobs

CLIMATE

Climate Change and Disaster Screening

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

OVERALL RISK RATING

Overall Risk	High

RESULTS

Indicator Name	Baseline	Target
Total dividends paid by State-Owned Enterprises to the Government	UAH 35.1 billion (2023)	UAH 50 billion (2026)
Total renewable energy capacity awarded or contracted under the law #3220-IX	0 GW (2023)	1 GW (2026)
Value of financing facilitated via agrarian notes	US$0 (2023)	US$75 million, at least US$15 million of which accrues to female farmers and female-headed and female-owned firms (2026)
Outstanding credit to the agricultural sector	116 billion (2023)	150 billion (2026)
Share of new loans supported through the 5-7-9 program allocated to SMEs	95 percent (2023)	100 percent, 20 percent of which accrue to female-headed and female-owned firms and female farmers (2026)
Number of cases successfully using preventive restructuring procedures	0 (2023)	10 (total up to 2026)
Score on the Customs Logistics Performance Index	2.4 (2023)	2.9 (2026)
General government (consolidated, including social security contributions) tax revenue (% of GDP)	33.3 (2023)	35 (2026)
NSSMC's governance, powers, and oversight framework for credit rating agencies in compliance with IOSCO principles	No (2023)	Yes (2026)
Percentage of procurement procedures scrutinized by the State Audit Services (SAS) from the procedures identified with red flags	11.5 (2023)	20 (2026), subject to a maximum of 2,300 scrutinization procedures per year

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO UKRAINE

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed First Growth Foundations Development Policy Operation (DPO) supports the authorities' efforts to (i) strengthen the economic policy framework to facilitate a structural shift towards sustainable growth, and (ii) enhance macro-financial stability to create a growth-conducive environment.** This is the first operation in a programmatic series of two and provides financing of US$1.5 billion using IBRD resources. The proposed loan is credit enhanced through the ADVANCE Ukraine Trust Fund (US$984 million), supported by the Ministry of Finance of Japan, and guaranteed by the Government of the United Kingdom (US$516 million)[1]. The Second Growth Foundations DPO in the series would also be guaranteed by bilateral donors or credit enhanced through a trust fund. Ukraine's Ministry of Finance has agreed with the Ministry of Finance of Japan on a partial[2] capitalization of interest accruing and fees due under the terms of the loan for the proposed operation for the period for which the operation is active, which would be paid out of the proceeds of the loan and reduce the disbursed amount.

2. **The operation is part of the World Bank's contribution to support provided by a coalition of international partners.** This coalition is taking collective action to support policy reforms aimed at maintaining macroeconomic stability and facilitating an economic recovery, and to provide external financing for budget support and critical investment needs. It includes, among others, the European Union (EU) through the recently approved 4-year EUR50 billion "Ukraine Facility" whose financing is tied to the successful completion of a set of structural reforms and investments that are aimed to enable Ukraine's economic convergence to EU levels. The International Monetary Fund (IMF) is supporting a 48-month US$15.6 billion Extended Fund Facility (EFF) program focused on maintaining economic stability, supporting the economic recovery, enhancing governance, and strengthening institutions. The World Bank's contribution to the collective effort, supported by bilateral guarantees and credit enhancement from bilateral donors, including Japan and the United Kingdom, entails the proposed programmatic DPO series, as well as several operations that provide budget financing while advancing reforms and investment in critical social and infrastructure sectors.

3. **Russia's invasion of Ukraine continues to impose an immense human and economic toll.** As of November 2023, more than 10,000 civilians, including 560 children, have been killed and more than 18,500 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 reversed 15 years of poverty reduction. Based on the global line of US$6.85 a day (2017 PPP), poverty is estimated to have increased from 5.5 percent in 2021 to 24.1 percent in 2022, pushing 7.1 million more people into poverty. The third Rapid Damage and Needs Assessment estimates that direct damages have reached US$152 billion since February 2022, with reconstruction needs now estimated at US$486 billion over the next ten years.

4. **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 significant foreign exchange reserves. The receipt of external aid - US$42.5 billion in 2023 – was instrumental to this achievement. At the same time, as the magnitude and timing of external aid inflows is becoming increasingly uncertain, Ukraine seeks to reduce its aid dependence and use existing aid inflows to stimulate growth and generate real and productive resource transfers. Calculations by the World Bank suggest that the right mix of policies can accelerate growth to an average of 6.4 percent per year in the near term and 5 percent per year in the medium term, subject to active hostilities ending. Achieving this ambition requires a renewed focus on structural reforms that encourage

[1] IBRD is and will remain the lender of record for this operation and this claim will not be part of any future debt treatment.
[2] Only the part of the IBRD financing that is credit enhanced through the ADVANCE Ukraine trust fund will be subject to interest rate capitalization. In addition, interest capitalization will only apply while the operation is active.

private sector investments, capital accumulation, strengthen productivity, help close the output gap by enabling access to external markets, and alleviate critical institutional growth constraints. This operation is designed to support this transition.

5. **The operation and the programmatic series are structured around two pillars.** These pillars combine a focus on potential growth (pillar 1) with an alleviation of policy-based growth constraints (pillar 2). Various supported policies help advance Ukraine's regulatory alignment with EU standards.

- ***Pillar 1 aims to strengthen the economic policy framework to facilitate a structural shift towards sustainable growth.*** To enhance productivity, this operation supports a reform stream to advance the corporate governance and reduce the anti-competitive impact of State-Owned Enterprises (SOEs). Central to this reform stream is enactment of a law on railway transport (trigger 1, DPO2) which would open the railway market, currently a vertically integrated state-owned monopoly, to private participation. A second reform stream to enhance productivity focuses on efforts to incentivize investments in renewable energy. Reforms to encourage capital accumulation focus on (i) the agricultural sector through the enabling of agrarian notes and reforms to the State Agrarian Registry to make it accessible to banks to enable mortgage lending, and (ii) financial sector reforms that target the 5-7-9 program exclusively at small and medium enterprises (SMEs) and reform bankruptcy procedures. To enable access to export markets, this series supports reform measures that align customs procedures with EU regulations and strengthen the selection procedures for the head of customs.
- ***Pillar 2 focuses on enhancing macro-financial stability to create a growth-conducive environment.*** Supported actions focus, first, on mobilizing domestic revenue – a critical precondition to reduce aid dependence – including reforms to the land valuation system and a targeted increase in excise rates to align them with EU levels. Second, procurement reforms to improve transparency and enable more productive public capital spending focus on updating automatic risk indicators in the e-procurement system and aligning Ukraine's legal procurement framework with EU standards. Third, financial sector stability reforms aim to strengthen security market supervision by enabling Ukraine's compliance with the standards established by the International Organization of Securities Commissions. Reforms involve updating the regulatory framework for rating agencies and the institutional governance of the National Securities and Stock Market Commission.

6. **The DPO is designed as a programmatic operation to support a continued focus on complex structural reforms and to align with the programmatic approaches employed by Ukraine's international partners.** Many of the reforms supported in this operation require a multi-stage engagement. This is especially important for the SOE agenda, which requires both an overall focus on improving SOEs' commercial orientation (supported in DPO 1) and a focus on specific SOEs (in railways and the banking sector in DPO 2). Similarly, the revenue engagement requires a multi-stage phased process that balances adjustments to different tax instruments with the need to move sequentially to adequately address possible adverse social impacts from tax increases. A programmatic approach is also critical to align the World Bank's policy engagement with the broader donor support provided to Ukraine, with both the IMF and the EU providing support through phased, multi-stage programs.

7. **The operation complements the World Bank's portfolio in Ukraine and is aligned with the World Bank Group's strategic priorities.** The World Bank's recent operational engagement has combined the provision of financing to maintain public services with operations that advance development impact while providing financial support to help meet Ukraine's fiscal needs. For instance, the Investing in Social Protection for Inclusion, Resilience, and Efficiency (INSPIRE) project, approved in November 2023, advances the social protection agenda, covering a critical area that enables a focus on growth in the DPO engagement. The Agriculture Recovery Inclusive Support Emergency (ARISE) project complements the DPO's focus on growth through a component that incentivizes farmers to adapt production to new export markets. Program-for-results operations that are under preparation plan to focus on public financial management and support to the private

sector, supporting critical implementation steps that complement the reforms supported in this DPO. The DPO is also aligned with the WBG Strategy for Fragility, Conflict, and Violence (FCV) 2020-2025 and the WBG's Global Crisis Response Framework that highlights the importance of remaining engaged during conflict and crisis situations to preserve hard-won development gains, protect essential institutional capacity, build resilience, and ensure readiness for a future recovery.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **Ukraine's economy has resumed modest growth in 2023.** The widespread destruction of infrastructure, internal and external displacement, and targeted attacks on the energy infrastructure had resulted in a 28.8 percent GDP contraction in 2022. Since then, more reliable electricity supply, an exceptional wheat harvest and the steadier receipt of external assistance have allowed for a gradual growth recovery in 2023, with GDP expanding by 19.5 and 9.3 percent in Q2 and Q3 of 2023, respectively. Yearly growth for 2023 is estimated at 4.8 percent, with potential to the upside. This constitutes an upward revision from the 2 percent growth rate projected in mid-2023. On the demand side this was driven by continued strong consumption, an improvement to investment, and a modest export expansion, whereas better-than-expected agricultural output and continued growth in sectors related to meeting public demand helped the supply side. The private sector has remained relatively resilient since February 2022, with continued strong agricultural and services output acting as growth drivers, and overall activity shifting spatially towards areas that are less affected by active hostilities, and sectorally towards areas supporting increased government demand for goods and services.

Table 1: Key Macroeconomic Indicators

	2021	2022	2023e	2024p	2025p	2026p
Nominal GDP, UAH *billion*	5,451	5,239	6,454	7,640	8,837	10,021
Real sector						
Real GDP, % change	3.4	-28.8	4.8	3.2	6.5	5.1
Consumption, % change	5.5	-15.5	9.6	1.5	5.2	1.9
Investment, % change	82.7	-38.2	4.0	3.8	12.1	17.5
Exports, % change	-8.6	-42.0	-0.3	26.2	35.6	22.7
Imports, % change	14.2	-17.4	18.5	18.7	26.3	15.9
Monetary and External						
GDP deflator, % change	24.8	34.9	17.6	14.7	8.6	7.9
CPI (eop), % change	10.0	26.6	5.1	9.5	7.9	7.3
Current Account Balance, % of GDP	-1.9	4.9	-5.4	-7.8	-8.6	-7.9
Exports of Goods and Services, % of GDP	40.8	35.5	28.7	30.6	35.8	38.8
Imports of Goods and Services, % of GDP	42.2	51.3	50.0	50.1	54.7	55.9
Foreign Direct Investment, % of GDP	3.8	0.1	2.4	0.8	2.4	3.6
Gross Reserves, *billion US$, eop*	30.9	28.5	40.5	41.3	40.8	39.8
In months of next year's imports	*4.5*	*3.9*	*5.0*	*4.5*	*4.4*	*4.0*
External Debt (public), % of GDP	28.6	49.8	56.8	66.4	67.8	65.6
Exchange Rate, UAH/*US$ (average)*	27.3	32.3	36.6	-	-	-
Fiscal						
Gen. Govt. Revenues (excl. grants), % of GDP	36.5	40.6	36.9	37.4	38.4	39.5
Gen. Govt. Expenditures, % of GDP	40.5	65.4	64.0	57.9	49.9	46.1
Gen. Govt. Balance (excl. grants), *% of GDP*	-4.0	-24.8	-27.0	-20.4	-11.5	-6.5
Public and Publicly Guaranteed Debt (eop), % of GDP	49.0	77.7	86.8	96.4	98.4	97.8

Source: World Bank Staff estimates, NBU, MOF, Statistics Office.

9. **Higher needs for defense expenditure necessitated a significant revision of the 2023 budget and an expansion of the fiscal deficit.[3]** Nominal expenditure at the end of 2023 had reached UAH 4.4 trillion, 46 percent higher than in 2022. This

[3] The proceeds of this operation are not eligible to be used for defense expenditure.

was driven by higher spending on goods and services, primarily for defense needs, which reached UAH 1.7 trillion at the end of 2023. Capital expenditures and interest payments also increased, albeit from a significantly lower base. At the end of 2023, total revenue (excluding grants) had reached UAH 2.7 trillion (56 percent more than in 2022). Most of the increase in revenue is accounted for by UAH 840 billion in profit transfers from budgetary institutions, including the National Bank of Ukraine (NBU). Tax revenues broadly increased in line with inflation and were aided by a return to pre-February 2022 excise duty and VAT rates for motor fuels from July 1. The high expenditure outturn necessitated a budget revision for 2023, enacted in October. At the end of the year, the general government fiscal deficit (excluding grants) was estimated to have reached 27 percent of estimated GDP.

Table 2. Key Fiscal Indicators (Percent of GDP)

	2021	2022	2023e	2024p	2025p	2026p
Total revenue and grants	**36.5**	**49.8**	**43.5**	**42.1**	**40.5**	**40.5**
Revenue	**36.5**	**40.6**	**36.9**	**37.4**	**38.4**	**39.5**
Tax revenue	**33.5**	**34.0**	**33.2**	**34.7**	**35.8**	**37.0**
Personal Income tax	6.4	8.0	7.6	7.6	7.4	7.4
Corporate profit tax	3.0	2.5	2.4	2.9	3.0	3.1
Social security contributions	6.6	8.2	7.5	7.7	7.5	7.5
Property tax	0.8	0.7	0.7	0.6	0.8	0.9
VAT	9.8	8.9	9.3	10.3	10.8	11.1
Excise tax	3.3	2.2	2.9	2.9	3.2	3.8
Taxes on international trade	0.7	0.5	0.7	0.6	0.8	0.8
Other taxes	2.9	3.0	2.2	2.0	2.3	2.4
Non-tax revenue	**3.0**	**6.6**	**3.7**	**2.7**	**2.6**	**2.5**
Grants	**0.0**	**9.2**	**6.6**	**4.7**	**2.0**	**0.9**
Total expenditures	**40.5**	**65.4**	**64.0**	**57.9**	**49.9**	**46.1**
Current expenditures	**36.6**	**63.0**	**60.6**	**54.4**	**43.5**	**41.0**
Wages and compensation	9.5	23.7	25.4	19.7	9.6	9.0
Goods and services	8.9	16.2	13.4	12.0	11.1	9.8
Interest payments	2.8	3.1	4.0	5.6	4.6	4.1
Subsidies to corporations	2.1	2.5	2.2	2.2	1.8	1.7
Social benefits	13.3	17.5	15.5	14.9	16.4	16.4
Pensions	9.5	11.1	11.6	11.8	10.6	10.0
Social welfare	3.8	6.4	4.0	3.1	5.8	6.4
Other current expenditures	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditures	**3.8**	**2.5**	**3.1**	**2.3**	**4.5**	**4.4**
Reserve fund	**0.0**	**0.0**	**0.2**	**0.8**	**0.5**	**0.4**
Net lending	**0.1**	**0.0**	**0.0**	**0.4**	**1.4**	**0.2**
Overall fiscal balance (incl. grants)	**-4.0**	**-15.6**	**-20.5**	**-15.7**	**-9.4**	**-5.6**
Primary balance	-1.1	-12.5	-16.4	-10.1	-4.9	-1.5
Overall fiscal balance (excl. grants)	**-4.0**	**-24.8**	**-27.0**	**-20.4**	**-11.5**	**-6.5**
Financing	**4.0**	**15.6**	**20.5**	**15.7**	**9.4**	**5.6**
Domestic (Net)	1.4	4.5	4.0	2.0	2.4	3.2
External (Net)	2.4	10.7	16.4	13.7	7.0	2.3
Privatization	0.1	0.4	0.1	0.1	0.1	0.1

Source: MOF, World Bank Staff estimates.

10. **External aid through grants and concessional loans were the main mechanism used to finance the budget deficit.** In 2023, Ukraine received the equivalent of US$11.6 billion (6.6 percent of GDP) in grants and US$31.1 billion (17.5 percent of GDP) in loans from its international partners which, in addition to financing the deficit, was used for 1.1 percent of GDP in external debt amortization for multilateral loans. Domestic borrowing in local and foreign currency provided 4 percent of GDP in financing net of amortization, while limited privatization contributed 0.1 percent of GDP.

11. **Monetary policy has remained restrictive throughout 2023, which has contributed to a substantial decline of**

inflation and facilitated the transition to a slightly more flexible exchange rate regime. The National Bank of Ukraine (NBU) entered 2023 with an exchange rate pegged to the US$ and a key policy rate of 25 percent. This restrictive policy stance helped to anchor inflation expectations, attract bank deposits, and discourage private consumption, which has contributed to a gradual decline of inflation throughout 2023. At the end of the year, year-on-year consumer price index growth was estimated at only 5.1 percent, compared with 26.6 percent at the end of 2022. The rapid decline in inflation was also aided by conducive supply side factors, as high agricultural yields and export bottlenecks boosted domestic food supply. With the decline of inflation exceeding expectations (mid-year World Bank projections had expected end-of-year inflation rates of 14 percent), the NBU has taken steps to adjust its monetary policy, transitioning as of early October, to an exchange rate regime of managed flexibility and gradually lowering the nominal policy rate to 15 percent. Despite the reduction in nominal rates, real rates remain high. Following the implementation of the new exchange rate regime, the exchange rate temporarily appreciated against the dollar, dropping below UAH 36 per US$ from the pegged rate of UAH 36.57 per US$, but has started depreciating since late November. Ukraine's cash exchange rate, at which households can sell foreign currency, has diverged from the official rate since February 2022, but the difference has narrowed since the transition to a more flexible regime, with average cash selling and buying rates differing by 1.3 and 2.3 percent, respectively, from the official rate in early January.

12. **After recording a surplus in 2022, Ukraine's current account turned into a deficit in 2023.** Ukraine's trade deficit reached US$37.8 billion in 2023, which exceeded the 2022 deficit by US$12 billion. The increase in the trade deficit was driven by a US$6.4 billion reduction in merchandise exports because of the discontinuation of the Black Sea Grain Deal, blockades from some European countries to Ukrainian agricultural exports and logistics routes, and targeted attacks on the trade infrastructure, and by a continued increase in imports. While Ukraine was able to open new shipping routes through the Black Sea, these were unable to compensate for the loss of volume caused by the other shocks to export logistics. At the same time, Ukraine received US$22.7 billion in secondary income, US$2.5 billion less than in 2022. The reduction in secondary income was driven by a US$3.8 billion reduction in (mostly grant) receipts by the general government, whereas receipts by households and firms expanded by almost US$1 billion. Foreign aid through loans was sufficient to finance the current account deficit while accumulating US$11.4 billion in reserves, which reached a historic peak of US$ 41.7 billion in July before decreasing to US$37.1 billion by March 1, 2024.

Table 3: Balance of Payment Financing Requirements and Sources

	2021	2022	2023e	2024p	2025p	2026p
Financing requirements (US$ billion)	**39.2**	**43.1**	**54.5**	**65.2**	**58.0**	**58.5**
Current account deficit ("-" is surplus)	***3.9***	***-8.0***	***9.6***	***14.6***	***17.3***	***15.9***
Public debt repayment	***6.9***	***5.3***	***4.6***	***7.0***	***6.9***	***7.8***
Private outflows	***19.8***	***24.8***	***26.9***	***29.9***	***29.6***	***31.6***
MT and LT debt and portfolio flows	3.3	2.0	2.8	4.0	1.9	3.0
ST private debt and trade credits	16.5	22.8	24.1	25.9	27.7	28.6
Other net capital outflows (change in net foreign assets)	***8.6***	***21.0***	***13.4***	***13.7***	***4.1***	***3.2***
Financing Sources (US$ billion)	**39.2**	**43.1**	**54.5**	**65.2**	**58.0**	**58.5**
FDI (net)	***7.5***	***0.2***	***4.2***	***1.5***	***4.8***	***7.2***
Public borrowings	***8.8***	***19.0***	***31.0***	***30.0***	***18.8***	***10.4***
Private borrowings	***25.4***	***21.6***	***30.6***	***35.7***	***34.0***	***39.8***
LT private debt and portfolio investment disbursements	6.7	4.5	1.4	4.4	2.4	3.7
ST private debt and trade credit disbursements	18.7	17.1	29.2	31.3	31.6	36.1
Drawdown in reserves (- = reserve accumulation)	***-2.5***	***2.3***	***-11.4***	***-2.0***	***0.4***	***1.1***

Source: World Bank Staff estimates, NBU, MOF.

13. **The banking system has remained operational and profitable, but risks remain high.** The combined profits of Ukrainian banks, after accounting for the deduction of a one-off 50 percent corporate income tax application in 2023, had increased by a factor of 4 by the end of 2023, compared to the same period in 2022 (and by 12 percent compared to the

same period of 2021), reaching UAH 87 billion. The high profits result from a combination of a growing deposit base (aided by high government expenditure on wages and social transfers) that have kept average retail deposit rates comparatively low and banks' ability to purchase overnight certificates of deposits at the NBU which currently offer an interest rate of 15 percent (at the end of 2023) but used to pay 23 and 20 percent throughout Q1 and Q2, respectively. The banking sector has remained operational and, thanks to the growing deposit base, liquid but risks on the asset and liability side remain high. On the asset side, loss of assets poses a medium-term risk to solvency. NPLs have risen to 37 percent of loans across the sector, up from 30 percent in early 2022, with credit losses approaching 13 percent of the net loan portfolio. The NBU's 2023 resilience assessment, supported through the Relief and Recovery DPO approved in June 2023, found that most banks adequately assessed potential credit losses and provisioned accordingly. Banks were mainly able to offset losses with operational profits. At the same time, additional provisions and related recapitalization needs may be required stemming from a possible deterioration of the macroeconomic situation as well as the upcoming independent asset quality review. On the liability side, risks arise from a concentration of deposits in short maturity. At the end of 2023, on-demand deposits accounted for 65 percent of all deposits, with less than 5 percent in deposit accounts with maturity over 1 year. While Ukraine has not experienced an inflow of "hot money" foreign deposits, the short-term nature of banks' liabilities poses maturity mismatch risks between the asset and liability side which, in turn, can constrain longer-term productive credit provision.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. **The baseline scenario indicatively assumes that active hostilities continue throughout 2024 and that conditions from 2025 onwards will allow for an easing of fiscal pressure, a resumption of export, and a start to reconstruction.** These assumptions adjust the mid-2023 baseline by assuming a longer duration of active hostilities.[4] The projections also consider that economic growth has been more resilient than expected. As a result of these factors, growth for 2024 is now projected at 3.2 percent, compared to 3.5 percent six months ago. Slower growth than in 2023 is expected as base effects and one-off factors, including the good 2023 harvest, subside, whereas key growth constraints, including the need for a restrictive monetary policy, remain. Starting from 2025, Ukraine's economic growth would accelerate to 6.5 percent under the baseline assumption as export growth resumes, and reconstruction investment supports the demand side. Private consumption growth is projected to remain modest due to contractionary monetary policy needed to rein in inflation. On the supply side, the export expansion from 2025 onwards would be reflected in accelerated agricultural sector growth, whereas higher investment would benefit manufacturing and the construction sectors. Inflation is expected to pick up in 2024 as one-off factors, including base effects and the good harvest, subside.

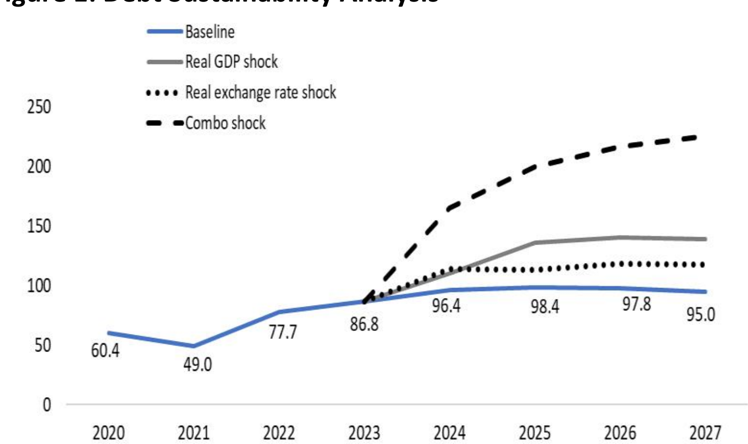
15. **Ukraine will continue to face a sizable fiscal deficit in 2024 and beyond.** Under the baseline scenario, the general government deficit (excluding grants) is projected to reach 20.4 percent of GDP in 2024, which is lower than in 2023 and lower than projected in mid-2023, owing to larger-than-expected GDP growth in 2023. Underlying this is a planned expenditure reduction, as announced in the 2024 budget approved in November 2023, which envisions a substantial reduction of non-military wages, goods and services, social welfare, and capital expenditures. The authorities have also taken significant steps to improve domestic revenue generation in 2024 and beyond, including by enacting a temporary corporate income tax increase from 18 to 50 percent in 2024, and to 25 percent from 2025 onwards, for the banking sector. The authorities have also approved the National Revenue Strategy (developed with World Bank and IMF technical assistance) in December 2023, which outlines tax policy and administration steps to sustainably broaden tax bases going forward. Grant receipts, by contrast, are projected to decline, in line with lower donor commitments, as are non-tax revenue receipts as high profit transfers from the NBU that bolstered revenue in 2023 subside. Domestic resource mobilization efforts related to broadening the excise base and updating land valuations supported by this operation will

[4] The indicative baseline scenario of the macroeconomic framework presented in the Relief and Recovery DPO in June 2023 assumed that active hostilities would end in mid-2024.

also help revenue collection in 2024 and 2025, as will reforms that advance the corporatization of SOEs and their associated dividend performance. From 2025 onwards the fiscal deficit is projected to narrow under the baseline assumption, as an end to active hostilities would allow for a consolidation of defense expenditure, which accounted for 47 percent of total spending in 2023. On the economic side, this would be reflected in reduction of spending on wages because of demobilization, compensated only partially through increased social welfare payments. Revenue receipts are expected to be supported by the implementation of the National Revenue Strategy. The deficit is expected to remain higher than before 2022 from 2025 onwards due to increased capital expenditures (limited in scope due to anticipated financing and absorption constraints), a slower reduction of goods and services spending as part of the economic recovery, and higher social benefits.

16. **Deficit financing under the baseline scenario is expected to continue relying on official financing from abroad, with a gradually increasing contribution from domestic sources.** The coalition of international donors supporting Ukraine has provided financing assurances until the end of the on-going IMF program in 2027. These assurances cover Ukraine's baseline and downside financing gaps between 2023 and 2027 as estimated by the IMF, which amount to US$122 and US$ 140 billion, respectively. While not all multi-year commitments by donors are in place, the fiscal projections assume that Ukraine will receive gross loans from its international partners amounting to 16.1 percent of GDP in 2024, which would also cover 2.5 percent of GDP in external amortization payments, thus resulting in net external financing receipts of 13.7 percent of GDP. This is projected to be complemented by 2 percent of GDP of net domestic borrowing and 0.1 percent of GDP raised through privatization transactions. From 2025 onwards, domestic borrowing is projected to play an increasingly important role as donor support gradually subsides, and as private financing contributes to reconstruction. Ukraine is also expected to start receiving flow relief on its external debt servicing obligations from 2025, which would contribute to external financing receipts.

Figure 1: Debt Sustainability Analysis



Source: World Bank Staff estimates.

17. **Ukraine's current account deficit is projected to widen in 2024 and remain elevated throughout the projection period.** The 2024 trade deficit for goods and services is expected to decrease slightly compared with 2023 as increased exports that benefit from new shipping routes through the Black Sea outweigh a modest demand-driven import increase.[5] Secondary income is expected to decrease in 2024, in line with lower expected external grant receipts, whereas primary income, including remittances, is expected to remain roughly stable. The reduction in grants is projected to result in a widening of the current account deficit to 7.8 percent of GDP in 2024. Going forward, the current account deficit is

[5] Compared with the last projection in mid-2023, the current account deficit has widened considerably, owing to increasing trade logistic difficulties.

projected to remain at levels around 8 percent of GDP as high import demand for capital expenditure and reconstruction slows downward pressure on the trade deficit caused by an export recovery, and as grant receipts continue to decline. The increased current account deficit is projected to be financed through external loan receipts, complemented by more significant FDI inflows from 2025 onwards. Official forex reserves are projected to peak at US$41.3 billion at the end of 2024, covering about 4.5 months of imports, and remain at similar levels throughout the projection period.

18. **Public debt is sustainable on a forward-looking basis when considering the authorities' efforts to undertake a debt treatment and partners' commitments to restore debt sustainability.** The combination of large fiscal financing needs and the fact that these will only partially be covered by grants means that PPG debt is expected to continue increasing to 98.4 percent of GDP in 2025 and remain over 90 percent of GDP throughout the projection period. The level is lower than projected six months ago due to higher projected nominal GDP levels in 2024. The Debt Sustainability Analysis (DSA) highlights a sensitivity of the debt trajectory to future GDP and exchange rate shocks (Figure 1) and metrics under the DSA indicate that debt risks remain high. Under the baseline scenario without a debt treatment, public debt is unsustainable. However, Ukraine's official bilateral creditors have committed to provide a level of debt relief necessary to achieve debt sustainability on a forward-looking basis.[6] The Ukrainian authorities have also committed to seek an agreement on comparable terms for private external commercial debt, for which debt service is currently subject to a standstill until August 2024. While no conclusion on a debt treatment for private external commercial debt has been reached to date, a process has been initiated.

19. **An illustrative downside scenario highlights the vulnerability of Ukraine's economic trajectory to external financing shortfalls and an extension of the active hostilities beyond 2024.** The downside scenario considers a situation in which (i) Ukraine only receives two-thirds of the budgeted external assistance in 2024 and (ii) active hostilities extend throughout the projection period. In 2024, the macroeconomic framework would be primarily affected by the shortfall in external assistance under this scenario. Despite this shortfall, options to maintain macroeconomic adequacy would be available. The authorities could, for example, manage this by enacting additional tax measures and compress expenditures to generate a deficit reduction of around 2 percent of GDP, raise domestic borrowing from banks to the same share of GDP achieved in 2023, and borrow from the NBU to the maximum amount compliant with the IMF EFF program (a total of UAH 187 billion, or about 2.5 percent of projected GDP, for all of 2024). In 2025 and beyond, the macroeconomic framework would also be affected by the extended duration of active hostilities under this scenario, which would maintain growth at the lower 2024 rate and lead to fiscal pressure from active hostilities persisting. Taken together, these factors would result in a fiscal deficit of 17.7 and 16.9 percent of GDP in 2025 and 2026, respectively. Financing this would, in the continued absence of sufficient external assistance, necessitate a more stringent economic adjustment than in 2024. This could involve, inter alia, more comprehensive tax and non-tax revenue measures, further expenditure rationalization, and improved coordination between fiscal and monetary policy.

20. **The macroeconomic outlook remains subject to exceptional risks.** The first source of risk is the evolution of the active conflict, which, if expanded in intensity or geographically, could lead to a renewed GDP contraction and additional fiscal needs. Second, while Ukraine has received financing assurances, prolonged delays in donor countries' legislative processes would create financing shortfalls that, as highlighted in the downside scenario, would likely be met through monetary financing. This risk also exists in the near term, as the final legislative approval of critical 2024 financing sources remains pending, which induces uncertainty about the amount and timing of aid disbursements. Third, key financial sector risks emanate from a maturity mismatch between assets and liabilities, the sector's exposure to risks from a sudden stop of official external capital inflows and the potential realization of larger-than-anticipated asset losses. Fourth, Ukraine's moratorium on external commercial debt payments is set to expire soon and Ukraine would be liable to resume significant debt service payments unless an agreement with creditors on a debt treatment or an extension of the moratorium is

[6] IBRD loans, as well as bilateral guarantees to IBRD loans, are excluded from the treatment perimeter for Ukraine.

reached.

21. **The macroeconomic policy framework is assessed to be adequate for the proposed operation, conditional on the receipt of the assured external concessional financing and the successful execution of a debt treatment.** Ukraine's authorities have demonstrated a commitment to prudent, growth-focused, and sustainable macroeconomic policies. This is witnessed by an exceptional performance under the IMF EFF program, which remains on-track, continued efforts to undertake structural reforms to support growth, as demonstrated through an active and programmatic DPO engagement, efforts to proactively raise domestic revenues, as evidenced by the approval of the National Revenue Strategy, and significant progress in advancing EU accession, as evidenced by a successful completion of the EU's conditionality and the award of candidacy status in December 2023. Ukraine's macroeconomic indicators have also remained sound, with stable inflation, reserve accumulation, and a successful closure of financing needs to date. These achievements notwithstanding, the adequacy of Ukraine's macroeconomic policy framework depends, to a large extent, on factors outside of the authorities' control, including the receipt of external assistance to close financing needs, and progress on debt treatment discussions.

2.3. IMF RELATIONS

22. **Ukraine has an on-going IMF Extended Fund Facility Program that is on-track.** The program, approved in March 2023 provides access of about US$15.6 billion over the next 48 months and is structured into two phases, with the first focusing on strengthening fiscal, external, price and financial stability and the second phase focused on longer-term financial stability. On December 11, 2023, the IMF Executive Board approved the second review of the program, enabling the disbursement of US$900 million, and emphasizing that the program remains on track. Staff and authorities have reached a staff-level agreement on the third review, and the Board presentation is scheduled for mid-March 2024. When completed, it would allow for a disbursement of US$880 million.

23. **During the second review twelve new structural benchmarks were included.** These include: (i) State-Owned Banks to remain under Ministry of Finance shareholder management and nationalized non-systemic banks to be transferred to the Deposit Guarantee Fund for resolution (continuous); (ii) the preparation of short-term revenue measures (end-February 2024); (iii) adoption of a new law on the Economic Security Bureau of Ukraine (end-June 2024); (iv) assessment of the effectiveness of tax privileges (end-July 2024); (v) review of potential fiscal and quasi-fiscal costs of major public companies (end-September 2024); (vi) development of an expenditure planning framework (end-October 2024); (vii) preparation of a guidance note on Medium-Term Budget Framework, capital expenditures and reconstruction priorities (end-December 2024); (viii) enactment of amendments to the procedural code related to High Anti-Corruption Court of Ukraine (end-March 2024); (ix) enactment of a law for a new administrative court (end-July 2024); (x) completion of an external audit of National Anti-Corruption Bureau of Ukraine (end-September 2024); (xi) determination of financial conditions of District Heating Companies (end-June 2024); and (xii) production of a SOE state ownership policy, dividend policy and privatization strategy (end-August 2024). In addition, a structural benchmark was revised to include additional elements to strengthen the institutional autonomy of the Specialized Anti-Corruption Prosecutor's Office (end-December 2023), the missed structural benchmark on developing a concept note for the 5-7-9 program was reset from end-September 2023 to end-March 2024, and the structural benchmark on the bank rehabilitation framework was reset from March 2024 to December 2024.

3. GOVERNMENT PROGRAM

24. **The authorities' structural policy priorities for the martial law and post-martial law periods are outlined in the National Recovery Plan, published in July 2022 during the Ukraine Recovery Conference.** The plan sets ambitious long-term goals, including GDP growth rates above 7 percent, the achievement of a top 25 position in the World Bank's Human Capital Index, and a 65 percent reduction in carbon emissions compared to 1990 by 2032. It is centered around three

objectives: resilience during the martial law period, recovery of crucial economic and social processes and natural ecosystems, and reconstruction, modernization, and growth for the post-war period. It anchors reforms around two strategic imperatives: (i) EU accession and access to EU and G7 markets through regulatory alignment, and (ii) the maintenance of national security through defense and energy security. Strengthening the business environment and maintaining macro-financial stability are identified as critical enablers. On the institutional side, the authorities are prioritizing the strengthening of institutional capacity and a de-oligarchization of the country through, among others, rule of law and anti-trust reforms.

25. **Growth-specific priorities are also articulated in the Ukraine Plan, a strategic planning document that lies at the core of the EU's planned Ukraine Facility.** The plan outlines four priorities: boosting potential growth, rebuilding and modernizing the economy, facilitating EU accession, and strengthening macro-financial stability. It aims to achieve this through reforms to financial markets, the management of state assets, human capital, and the business environment, with specific sectoral focuses on energy, agriculture, transport and logistics, critical materials, digitalization, and public financial management.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

26. **This programmatic series intends to (i) strengthen the economic policy framework to facilitate a structural shift towards sustainable growth, and (ii) enhance macro-financial stability to create a growth-conducive environment.** The first pillar of the operation supports structural reforms aimed at increasing Ukraine's growth potential. Actions under the second pillar focus on macro-financial stability through tax, procurement and financial sector supervision reforms that act as an important growth enabler, as outlined in the National Recovery Plan and the Ukraine Plan concept note. The program also supports the authorities' ambition for EU accession and supports legislation in important areas, including tax, procurement, and financial market regulation, that will help it meet the EU *Acquis*. EU accession itself is an important anchor of growth because it can, among others, enable increased private and public capital flows to Ukraine. The results framework of the DPO series reflects the reality that many of the reforms are structural in nature and are likely to only deliver results in the medium term, while Ukraine's capacity to deliver results remains constrained in the short term due to the active conflict.

27. **The design of this operation has benefited from two lessons learned derived as part of the ICR of the Economic Recovery DPO series, which is currently under preparation.** First, the ICR suggests that advancing and safeguarding difficult sectoral reforms requires sustained engagement and technical support, as well as financing and close coordination with international partners. This operation is designed as a programmatic operation to ensure sustained engagement, is closely aligned with international partners to enable complementarities, and is designed in consideration of the World Bank's sectoral engagement. Second, on the financing side the ICR highlights that the World Bank does not have an instrument in place to suspend for Ukraine, at the on-set of conflict, interest and principal payments to ensure net-positive flows. Considering this, the proposed operation uses a partial capitalization of interest payments to reduce immediate repayment burdens. The operation also incorporates a key lesson reflected in the WBG's FCV strategy, which highlights that it is important to remain engaged during conflict and crisis situations.

28. **The proposed operation is aligned with the goals of the Paris Agreement.** The program is fully consistent with Ukraine's climate commitments, namely the Nationally Determined Contributions, Long-term Strategy and Strategy for Environmental Security and Adaptation to Climate Change for the period up to 2030. On mitigation goals, all prior actions are at low risk to cause a significant increase in greenhouse gas (GHG) emissions or cause any persistent barriers to transition to low-GHG emissions development path. Reforms under Prior Actions 2 and 3 will support the transformations in the energy and electricity sector by increasing the share of clean and renewable energy. While reforms under Prior Actions 4 and 5 (support farmers' and SMEs' access to finance) may increase GHG emissions, considering that only SMEs

are eligible and the emission-intensive activities are not specifically supported, the overall possible increase in GHG emissions resulting from these reforms is estimated to be low. All other prior actions fall under the public administration sector and are not likely to have an impact on Ukraine's GHG emissions or create persistent barriers to a low-carbon development and can therefore be considered universally aligned. Third, regarding adaptation and resilience goals, risks from climate hazards are not likely to have an adverse effect on any prior action's contribution to the PDO. A screening for climate change and disaster-related impacts was performed. Therefore, all prior actions of the proposed DPO program are aligned with the mitigation and adaptation and resilience goals of the Paris Agreement, and a detailed review, including of potential disaster impacts, is presented in Annex 5.

4.2. PRIOR ACTIONS, CONDITIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.

Prior Action 1: To reduce the distortionary impact of SOEs on competition and advance their commercialization, the Borrower has strengthened the accountability and independence of SOE supervisory boards, as evidenced through Law #3587-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.

29. ***Rationale:*** **The large SOE footprint in Ukraine's economy undermines competition and acts as a constraint to productivity growth.** Ukraine's transformation to a fully-fledged market economy is incomplete partially because the state continues to intervene in critical sectors, thereby undermining competition, the efficient allocation of resources and, ultimately, productivity growth.[7] A key vehicle for state intervention are state-owned enterprises (SOEs), whose revenue accounted for 32 percent of GDP in 2021, well above regional peers. SOEs are active in 28 economic sectors, with their market share exceeding 50 percent in at least half of them. Many of the sectors in which SOEs are active are not traditional natural monopolies or critical public services, but rather sectors in which private sector operators are active in peer countries. This is particularly relevant for the railroad sector, which remains dominated by a vertically integrated state-owned monopoly, resulting in a score of 94 in the World Bank and World Trade Organization index on railway service trade restrictiveness (with 100 signifying a fully closed sector). Contributing to the distortionary impact of SOEs are governance practices that allow for significant state involvement in their management, leading SOEs to often pursue non-transparent objectives and availing them of support that is unavailable to private competitors. These governance practices manifest in a lack of accountability of supervisory board members, who are often not competitively selected and whose work is subject to regular evaluation.

30. ***Substance of the prior action:*** **This prior action supports a reform to SOEs' governance framework to embed competition considerations in their management and to advance the commercial orientation of SOEs.** Specifically, law #3587-IX amends the operating framework for SOEs in line with the OECD Guidelines on Corporate Governance of SOEs. First, it transfers the power of appointing and dismissing CEOs and approving strategic and financial plans to the supervisory boards. Second, it protects supervisory members from unreasonable dismissal by specifying a narrow list of permitted reasons for dismissal. Third, it improves accountability through mandatory audits and evaluations of the performance of supervisory boards. Fourth, with a view to strengthen profit-making incentives and reducing the fiscal impacts of SOEs, the law assigns a gatekeeper role to the Ministry of Finance, empowering it to approve key financial targets for SOEs. The law is complemented by the development of a state ownership, dividend policy and privatization strategy, supported as an IMF structural benchmark, which is expected to be completed by the end of August 2024.

31. ***Indicative triggers:*** **Building on the prior action, the second operation will continue efforts to reduce the anti-competitive impact of SOEs in two growth-critical sectors.** First, in the railway sector, the trigger will support the enactment of a law on railway transport which will set a timeline to split the vertically integrated national railway company

[7] State intervention is the main driver of market regulatory restrictiveness as measured by the OECD-World Bank Product Market Regulation (PMR) Score.

into four organizationally and financially independent operators, covering the network infrastructure management, rolling stock maintenance, cargo transport, and passenger transport, respectively. The operations of the former three entities will be commercially oriented. Second, Ukraine's banking sector continues to be dominated by state-owned banks, whose market share has increased after the nationalization of various banks in the aftermath of the 2014/15 crisis. To enhance competition and private participation in the banking sector, the second operation will support the enactment of a law that sets the legal basis for the gradual privatization of State-Owned Banks and aligns privatization procedures with international practice.

32. ***Expected results:*** By the end of the programmatic series, it is expected that the adverse impact of SOEs on competition and productivity is reduced through increased market-orientation of SOE management and the opening of SOE-dominated markets for private competition. To measure the increased competitiveness of SOEs, the results framework captures dividends paid by SOEs to the government as a proxy for their profitability and competitiveness, which are targeted to be increased by UAH 15.3 billion between 2023 and 2026.

Prior Action 2: To promote renewable energy generation, the Borrower has replaced the fixed feed-in tariff with a transparent auction-based incentive mechanism, as evidenced by Law #3220-IX dated June 30, 2023, and published in the Official Gazette on July 26, 2023.
Prior Action 3: To enable the trading of renewable energy, the Borrower, through its CoM, has approved the institutional mechanism required to issue, circulate, and redeem guarantees of origin of electricity produced from renewable energy sources, as evidenced by Resolution #227 dated February 27, 2024.

33. ***Rationale:*** **Renewable energy is a key input for sustainable productivity growth, but Ukraine's current system of feed-in-premiums has not been able to effectively guide the renewable energy transition**. Greening the energy mix and decentralizing power generation are critical for Ukraine energy transition and to increase the security and resilience of the energy system. This is because it reduces reliance on gas imports and other fossil fuels, mitigates the impacts of localized extreme weather events on electricity generation, and, in the current context, reduces the probability of power losses due to targeted attacks on large, centralized power plants. Developing green distributed power generation requires providing market incentives for producers to invest in cost-efficient renewable energy generation capacity and in system flexibility to manage the variability intrinsic to renewable generation. Critical policy instruments to achieve this are transparent market-based incentive mechanisms (such as feed-in-premiums) and credible certification mechanisms that allow to distinguish renewable from conventional energy. Ukraine's fixed feed-in tariff system used to not meet these requirements as it provided a fixed tariff for renewables with non-transparent methodologies that prevented a proper price discovery and competitive allocation of demand to the lowest cost producers. This system has been fiscally costly, as the fixed feed-in tariff provided for one of the highest mark-ups in the world, and was prone to capture by connected elites that have complicated market entry by international investors. Together, these factors have driven up the cost of renewable energy and slowed its expansion. Ukraine also currently does not have a credible system for source certification, which prevents consumers from requesting the provision of renewable energy.

34. ***Substance of the prior actions:*** **Both prior actions supported under this reform stream seek to incentivize the scale-up of renewable generation.** Prior action 2 supports a reform to Ukraine's renewable incentive scheme to allow for cost-reduction in renewable investments and to ensure transparent access to the electricity market. Law #3220 on the green transformation of the energy system establishes an auction-based feed-in premium mechanism, in which the right to supply renewable energy is granted to the bidder who proposes the lowest cost, and where the difference between the cost proposed by the winning bidder and the market tariff, if it is lower than the winning cost, is paid as a premium to the winning bidder on top of the market tariff. The new system thus moves away from a fixed calculated feed-in-tariff to a performance-based feed-in-premium. The law also allows projects operating under the feed-in-premium regime to voluntarily transition to be remunerated through the market and sets out the operational framework of "active consumers" which are entities that consume from, but also supply renewable energy to the grid. It specifies the

preconditions for becoming an active consumer and establishes new market participants (the aggregator and small distribution system operator) to manage and enable the participation of distributed energy generation facilities. The law also supports the simplification of permitting procedures and more transparent and more easily accessible auctions and allows to design auctions to limit the abuse of market power, for instance by including a premium cap in auctions. Prior action 3 supports a procedure that establishes the institutional mechanisms to issue, circulate, and redeem certificates that guarantee the origin of electricity produced from renewable energy sources. This prior action therefore allows for a credible and reliable certification of renewable energy and ensures that these are issued and registered through a centralized registry of origin guarantees.

35. **The supported reforms are part of a wider engagement to strengthen energy market transition and competition in Ukraine.** This reform stream builds on energy-related prior actions supported under the Relief and Recovery DPO, which supported an increase in transmission tariffs and, as reflected in the LDP of the Relief and Recovery DPO, has also contributed to the approval of the REMIT law that transposes the EU's wholesale market regulation mechanism into Ukrainian law, by continuing the process of tariff optimization and enhancing Ukraine's regulatory framework to achieve the EU's renewable energy targets. Going forward, and considering the high market concentration in energy markets, energy transition reforms require parallel efforts to increase the liquidity, efficiency and transparency of electricity markets, such as: 1) a full implementation of the REMIT law to enable the regulator to impose sanctions if market abuses are detected and to increase market supervision (the final package of REMIT resolutions is expected to be approved by mid-2024); 2) efforts to strengthen the Anti-Monopoly Committee of Ukraine (as supported by other development partners); and 3) a reduction of regulatory, informational, and financial entry barriers. Future auctions of renewable energy also will be preceded by market analysis to ensure adequate participation and competition, which will be carried out with support by development partners, including the World Bank.

36. ***Indicative triggers:*** **The second operation will support the adoption of implementing regulations for law #3220 that operationalize the feed-in premium mechanism and advance the transition to an increased reliance on electricity produced from distributed renewable generation**. Specifically, the indicative trigger envisions the adoption of a set of regulatory legal acts required to implement law #3220. These can include the approval of the standard form of contract for the provision of services under the market premium mechanism for renewable energy generation, the standard form of agreement on participation in the balancing group of the guaranteed buyer, amendments to the standard agreement for the sale and purchase of electricity at the reformed feed-in tariff, and amendments to the standard agreement on the provision of services to increase the share of electricity production from alternative sources.

37. ***Expected results:*** The supported actions are expected to enable new renewable energy generation capacity awarded and certified under the new feed-in premium mechanism in Ukraine while at the same time enhancing the efficiency of clean energy subsidies to reduce their fiscal impact. The result framework targets a level of 1 Gigawatt of renewable energy generation awarded or contracted under law #3220.

Prior Action 4: To improve farmers' access to loans through digital technologies, the Borrower has introduced a new financial instrument that allows for the use of agrarian notes as collateral, as evidenced by Law 3586-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.

38. ***Rationale:*** **The absence of collateral is a critical constraint to access finance, especially for the agricultural sector.** Agriculture is a major driver of exports and growth and has emerged as Ukraine's main comparative advantage. The sector, however, continues to struggle with access to finance, which was identified as a major constraint by more than half of agrifood sector respondents in the 2019 Enterprise Survey. Financing constraints have substantially increased input prices, thus pushing up the cost of crop planting, currently estimated at UAH 30,000 per ha compared to UAH 15,000 per ha in 2021 and reduced the share of inputs sold on credit. A reason for limited sale on credit is the absence of collateral as one of farmers' key assets, expected future earnings from crop sales, are difficult to contract. While crop receipts could

theoretically be used as collateral, they have attracted limited credit resources, especially from foreign investors, as they are difficult to trade, and their issuance and settlement are subject to significant administrative costs.

39. ***Substance of the prior action:*** **Prior action 4 supports the introduction of a new digitalized crop receipt instrument that can be used as collateral by farmers to avail of financing.** The prior action supports the approval of law #3586-IX which introduces agrarian notes (ANs) as a new financial instrument. These take the form of electronic securities that can be traded and managed using electronic signatures, reducing the cost of issuing, circulating, and terminating them. The circulation of ANs will be carried out in the depository system of Ukraine, digitalizing the holdings in a central repository, and increasing transparency as well as their availability to investors. In addition, the law facilitates the issuance of ANs by expanding the range of institutions allowed to issue them to agricultural cooperatives and allows for the pledging of a wider set of commodities as collateral, including livestock, animal products, and primary processing products.

40. ***Indicative triggers:*** **To complement the introduction of ANs, the second operation will support the integration and accessibility of agricultural databases by banks to overcome information frictions and enable credit expansion.** Specifically, the indicative trigger will support a digital integration of state and financial sector support to agriculture by amending the State Agrarian Registry (SAR) law. The SAR electronically consolidates information from various state registries to create an electronic record of an agro-producer's land, livestock, property rights, economic activity, and recent grant or loan applications. The amendment will grant financial institutions access to the SAR to evaluate loan applications. Such access will help overcome information frictions, providing banks with a comprehensive view of an applicant's assets and economic activity, and thus enables an informed expansion of credit provision. This reform stream continues efforts to enhance transparency in agricultural markets to enable access to finance by complementing a prior action supported under the Relief and Recovery DPO that mandated comprehensive monitoring of public land transactions, which targets increased availability of land transaction prices to enhance the usability of land as collateral.

41. ***Expected results:*** The proposed reform stream is expected to support investment-driven growth through improved access to finance for the agricultural sector. The results framework measures the impact of ANs directly, targeting the provision of at least US$75 million of financing against them (of which at least US$15 million to female farmers), and, more broadly, captures an increase in credit provision to the agricultural sector by targeting a 30 percent nominal increase.

Prior Action 5: To efficiently use public funds to support the private sector's access to finance, the Borrower, through its CoM, has revised the 5-7-9 Loan Program to limit eligibility to SMEs exclusively, as evidenced by Resolution #1403 dated December 27, 2023.

42. ***Rationale:*** **Credit provision to the private sector has been suppressed as a by-product of Ukraine's economic management since February 2022.** Financing need monetization in 2022 and large donor inflows that were not fully absorbed in the current account have resulted in a substantial increase in money supply. To mitigate the inflationary impact of this, the NBU has maintained a restrictive interest rate policy, with the key policy rate remaining consistently above 15 percent. This policy stance, while justified to maintain macro stability, has adversely affected private sector lending: outstanding loans to corporations had decreased by a nominal 5.6 percent in November 2023 compared to the same month in 2022. Recognizing this impact, the authorities have devised, with World Bank support, programs that facilitate lending for economically critical sectors. These include the 5-7-9 interest rate compensation program, which caps recipient's lending rates at 5, 7, 9, or 13 percent and compensates banks for the remaining spread to market rates. This program is thus designed to help sectors that are deemed critical to bypass high overall interest rates, while still compressing private sector demand for the remainder of the economy. To date, it has focused primarily, but not exclusively, on the agricultural and food sectors, which are Ukraine's main export earners. While this program has been effective in channeling lending, it is also fiscally costly, with budget allocations in 2024 amounting to UAH 18 billion (US$500 million equivalent).

43. **Women are a critical part of the agriculture and food sector in Ukraine and although no direct exclusion is identified**

as an issue in Ukraine, there is a gender gap in access to finance. Prior to February 2022, an estimated 20 percent of farms in Ukraine was headed by women. In general, compared to male-headed rural households, female-headed households tended to, amongst others: have a smaller proportion of arable land; sell less agricultural products; and take on more manual (such as cultivation, weeding and other) rather than mechanical work (such as tilling, ploughing, using combine harvesters and other) in crop production. Even though men tended to be more active across the entire agricultural crop value chain, women were engaged in production and storage management. Women are particularly affected by active hostilities, often being the ones that need to maintain the household and the business with men being engaged in the military and broader defense sectors. This is coupled with the fact that even before February 2022, both male and female managers identified access to finance as a "highly or somewhat" obstacle to doing business in Ukraine. Rural women in particular had cited, amongst others, a lack of trust in credit institutions, lack of collateral and high interest rates as reasons for not applying for credit.

44. ***Substance of the prior action:*** **Prior action 5 eliminates large firms' eligibility for the 5-7-9 program, making it exclusively available for SMEs.** To enable an optimal use of scarce fiscal resources, the 5-7-9 program needs to be adjusted regularly to optimally target recipients for whom credit would have the largest impact, and to avoid leakages to larger companies that could avail of financing in the absence of state support. This prior action supports a policy change that ensures that scarce program funds are reserved for SMEs (in previously targeted sectors) that would otherwise face challenges in accessing financing. It continues a long-standing World Bank engagement on this program that was designed to ensure the optimal, transparent, and accountable use of resources. This entails support to a previous reform of the program through the Relief and Recovery DPO that eliminated full interest rate compensation (i.e., 0 percent interest rates), and increased program generosity for small firms, and support through investment projects (e.g. ARISE) that financed financial flows while safeguarding against fiduciary risks. This prior action is part of a larger reform process of the institutional administration and design of business support programs which also involve (i) the development of a broader strategic concept note to enhance safeguards and the targeting of the 5-7-9 program (IMF structural benchmark), (ii) an independent assessment of the Business Development Fund, the government entity that administers the program, for which independent consultants are currently being tendered, with completion expected 12 months after the completion of tendering, and (iii) broader work on strengthening the governance and financial self-sustainability of the Business Development Fund. Assuming that the 2024 budget allocation for the program would generate a similar ratio of subsidy-to-loans as the average of 2022 and 2023, the 5-7-9 program would contribute to the issuance of UAH 108 billion (approximately US$3 billion) in new loans.

45. ***Indicative triggers:*** **The second operation will support a reform that enables a preventive restructuring process to prevent bankruptcy, aligning with EU Directive 2019/1023.** The EU Directive positions preventive restructuring as the preferred method for averting insolvency for viable firms, moving away from the traditional focus on bankruptcy declarations. While Ukraine's bankruptcy regulations already allow for preventive restructuring, these are rarely used because they do not specify a clear process for their application, are in some cases contradictory with other provisions in the bankruptcy code, and do not contain clear guarantees for the creditor that ensure adherence to restructuring agreements. The trigger supports enactment of a draft law which aims to align the legal framework with the EU Directive. The draft law emphasizes communication between debtor and creditor and the development of a binding and credible restructuring plan. It also enables participation of an arbitration administrator at the creditor's request and makes this mandatory for select cases. Overall, the draft law is designed to make the preventive restructuring process more efficient, creditor-friendly, and also safeguard the rights of debtors and other stakeholders.

46. ***Expected results:*** The proposed reforms intend to improve access to finance, especially for SMEs and for women in agriculture, through improved targeting of state support (captured in the results framework through a target of 100

percent of new supported loans going to SMEs, 20 percent of which are female-headed[8]), and by enhancing the efficiency and transparency of insolvency proceedings, thereby reducing the risk of unstructured bankruptcies with low recovery outcomes for creditors, while also safeguarding the rights of debtors and other stakeholders (measured through the number of cases successfully using preventive restructuring procedures, with a target of 10).

Prior Action 6: To facilitate export processing, the Borrower, through its CoM, has submitted to the Verkhovna Rada of Ukraine for approval on January 16, 2024, the draft Law #10411 amending the customs code of Ukraine and aligning it with the European Union customs legislation.

47. ***Rationale:*** **Facilitating trade with the EU provides an immediate opportunity to accelerate growth, but custom delays artificially inflate trade costs.** World Bank and NBU 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. Closing this gap by facilitating access to export demand is thus an immediate opportunity to accelerate growth. At the same time, custom processing remains a binding constraint. Ukraine ranks 92nd out of 138 countries in the 2023 logistics performance index, partly due to inefficient customs procedures and a lack of border agency collaboration.[9] Currently, trucks exporting cargo from Ukraine to Poland must wait between 4 and 14 days (depending on the crossing point) before entering the processing area, and average processing then takes over 2 hours. Customs agents and the wider customs administration have also been anecdotally linked to corruption.

48. ***Substance of the prior action:*** **Prior action 6 supports a comprehensive update to Ukraine's customs code that aligns border processing with EU regulations.** To facilitate the duty and tariff free import of inputs, for instance for those inputs used to produce exports, the reform transposes the EU's system of economic customs regimes into Ukrainian law. This includes provisions that simplify formalities to access these regimes and facilitate movements of such inputs to warehouses without requiring the formalities of a customs transit process. The reform also updates rules for customs agents by including the concept of an "indirect" customs agent that foreign firms can avail of to clear goods, facilitating their cross-border flows. To enhance processes, the law authorizes customs to exchange value information electronically with foreign customs administrations for valuation control purposes and to use electronic forms when issuing decisions or documents. To ensure due process, the law extends the scope of customs decisions subject to procedural discipline, especially with regards to applications for economic customs regimes, giving traders more opportunities to ensure fair application of the law. The law also includes provisions that strengthen intellectual property rights protection by mandating an automatic alert to a specialized unit when infringements upon import are detected. Overall, the law both facilitates trade and strengthens customs procedures to ensure adequate enforcement.

49. ***Indicative triggers:*** **Building on the procedural reform in the first operation, the second operation will support an institutional reform of the State Customs Service to ensure it can adequately fulfill its mandate.** This involves, inter alia, the establishment of a merit-based and transparent mechanism for the selection of the Head of Customs. Second, the reform envisions protecting the Head of Customs from unfair dismissal by specifying an exhaustive list of grounds for dismissal. Third, the reform will introduce an evaluation of the service, including its staff, with a negative evaluation being sufficient ground for dismissal of staff members and the Head of Customs.

50. ***Expected results:*** This reform stream is expected to support growth by enabling a trade-based output gap closure through trade facilitation and improved customs procedures. The results framework captures improved customs performance through a 0.5-point improvement in the World Bank's Customs Logistics Performance Index.

Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment.

[8] Information on the baseline share of female-headed 5-7-9 recipients is not available as the Business Development Fund has only started collecting this information from 2024.
[9] IFC analytical work under the EUR Logistics activity (608377).

Prior Action 7: To strengthen the land tax base, the Borrower, through its CoM, has approved the initiation of a pilot mass valuation of land values, as evidenced by Resolution #1078 dated October 13, 2023.

51. ***Rationale:* Increasing domestic revenue is a precondition for Ukraine's growth recovery.** Additional revenue is needed for two reasons. First, Ukraine's high aid dependence has necessitated a restrictive monetary policy stance to reign in the inflationary impacts of large donor inflows that were not fully absorbed in the current account. The resulting high interest rates have directly impacted firms' incentives and ability to invest. Second, Ukraine would also benefit from additional revenue to sustain critical social expenditures, free fiscal space for reconstruction and capital expenditure. Recognizing the importance of domestic revenue, the authorities have approved a National Revenue Strategy in December 2023 that lays out priority reforms until 2030 and have enacted corporate income tax increases on the banking sector.

52. **Immovable property taxation has significant revenue potential, but is constrained by an inaccurate assessment of property values.** In 2022, property taxes (incorporating land and real estate taxes) accounted for 6.6 percent of local revenue (including transfers), making it the second most important revenue source after personal income tax sharing. Land taxation is based on a normative valuation of land – the normative money value – which seeks to capture the property's productive capacity and is calculated by the State Geo Cadaster. Local governments are allowed to impose land taxes of up to 3 percent of the normative value per year. While the normative values account for land quality, distance to infrastructure, parcel shape, and other environmental conditions, there is evidence that they do not accurately capture the market value of land. For instance, the correlation between normative values and actual land sales prices is 0.69 for commercial farming and only 0.28 for personal farming. In addition, mean actual market prices for personal and commercial land exceed normative values by 600 percent and 20 percent, respectively.[10] Strengthening land taxation thus requires an updating of land valuations.

53. ***Substance of the prior action:* Prior action 7 supports a resolution that establishes the implementation mechanism for the pilot mass valuation and, through this, initiates a computerized valuation of land.** A mass-valuation approach uses historical data on land transaction prices and statistical models to predict valuations based on observable characteristics, such as location, size, proximity to services, building features, land use, and others. The resolution supported under prior action 7 implements law #3065-IX, supported as a prior action under the previous Relief and Recovery DPO, which establishes the legal basis for such a pilot of mass valuation. It mandates that the valuation exercise must be completed within 11 months of approval of the resolution, outlines procedures on how valuation should be conducted, and assigns institutional responsibilities.

54. ***Indicative triggers:* The second operation will build on prior action 7 by supporting an approval and subsequent publication of the updated land valuations.** The completion of trigger 7 requires a completion of the pilot mass valuation exercise and constitutes the final implementation step under the responsibility of the State Geo Cadaster. As a next step, the authorities plan to amend the land legislation to implement the mass valuation, subsequent to which the Ministry of Finance will be able to use the updated valuations to update the legal provisions in the tax code, highlighting that the tax base will be defined as the capital-based value rather than the normative value, and updating applicable tax rate guidance for regional governments to ensure an equitable and progressive land tax system.

55. **To generate additional revenue, the second operation will also support an increase in selected excise tax rates.** This reform is identified as a priority in the National Revenue Strategy, which targets a gradual alignment of tobacco and motor fuel excise rates to the EU minimum rates over a five-year period. The increase in motor fuel excise rates through the 2025 Budget will not only raise substantial revenue (full alignment of excise rates with EU minimum levels is expected to raise between 1.5 and 2.2 percent of GDP in additional revenue) but will also help internalize externalities from fossil fuel combustion.

[10] Deininger and Ali (2023).

56. **Expected results:** Prior action 7 and triggers 7 and 8 are jointly expected to increase domestic tax revenue, with the results framework targeting an increase to 35 percent of GDP in general (consolidated, including social security contributions) government tax revenue by 2026.

Prior Action 8: To reduce corruption in public procurement, the Borrower, through the Ministry of Finance and the Ministry of Economy, has adopted a joint order initiating and outlining the steps for the update of automatic risk indicators for e-procurement, as evidenced by Order #66/3757 dated February 12, 2024.

57. ***Rationale:* Public procurement will be critical for the reconstruction of Ukraine, but will need to strike a balance between speed, transparency, value-for-money, and accountability.** Public procurement in Ukraine accounts for nearly one-fifth of GDP and is likely to grow in volume as Ukraine starts rebuilding its infrastructure. The bulk of procurement in Ukraine is conducted using Prozorro, the country's e-procurement system. The scope of public procurement recorded in Prozorro expanded since the establishment of the system in 2016, from an average of nearly one million transactions per year between 2016 and 2019 to more than 3 million per year from 2020 to 2022. In 2022, around 2.8 million transactions valued at 442 billion UAH (around US$11.6 billion) were completed via Prozorro. Electronic procurement is not only critical for rapid procurement but also to enhance transparency, which the authorities have consistently advanced. For instance, Prozorro was recently integrated with the Register of Corruption Offenses and new features were added that now require procuring entities to justify why they forego auctions. The last Relief and Recovery DPO supported a further strengthening and mandating of an improved and broadened e-procurement system which featured additional functionalities and enabling more procurement through an electronic catalogue. Recognizing these advances, the World Bank recently approved the use of Prozorro for all projects in Ukraine. Concurrently, a group of multilateral development banks, including the World Bank, have recently agreed to harmonize procurement practices for public sector investment in Ukraine. They have also agreed on a common approach in supporting the use of electronic procurement, recognizing the significant progress that has been made on aligning Prozorro with MDBs' policy requirements and best international practices, and committing to increase their reliance on Ukraine's e-procurement system once the upgraded system becomes functional, ensuring adequate transparency, fair international competition, and value for money for Ukrainian citizens. Ensuring transparency hinges on the availability and use of automated safeguards through risk indicators.

58. ***Substance of the prior action:* Prior action 8 supports a reform stream that will further strengthen transparency and accountability of procuring entities in Prozorro.** Ukraine's law on public procurement mandates the use of automatic risk indicators to monitor compliance with procurement procedures. The methodology to undertake these is regulated through an order by the Ministry of Finance. Risk indicators form the basis for the initiation of procurement monitoring by the State Audit Service, which conducts reviews and regularly publishes results of these reviews on its website. In practice, the risk indicators currently employed do not effectively identify risks to procurement integrity as they, for instance, frequently flag non-risky transactions and thus limit the ability of the State Audit Service to effectively target the highest risk transactions. Prior action 8 supports an order by the Ministry of Finance and the Ministry of Economy to update the use of an improved set of indicators. These indicators, whose updating is expected by September 2024, will form part of a digitized "red flag" system which automatically analyzes procurement data.

59. ***Indicative triggers:* The second operation will support the operationalization of the updated indicators and a more comprehensive update to Ukraine's public procurement law that will align it with EU directives.** DPO2 will support an order by the Ministry of Finance that mandates the use of updated risk indicators to detect signs of legal violations in procurement and to publish them as part of the State Audit Service regular reporting. DPO2 will also support a more comprehensive legal update of the procurement framework. Specifically, the European Commission's 2023 staff report that assessed Ukraine's readiness for EU accession highlighted that Ukraine had some level of preparation in the area of public procurement but that additional legal alignment with the EU acquis was needed, including on concessions and public-private partnerships, exclusion, selection, and the use of the most economically advantageous tender criterion. The second operation will support a reform to Ukraine's law of public procurement to achieve this alignment.

60. ***Expected results:*** The prior action and the triggers are expected to strengthen procurement transparency and integrity, thus reducing incentives for the misuse of public funds, and increasing the value-for-money of public spending. The results framework captures, as an intermediate outcome, that the State Audit Service scrutinizes an increased percentage of procurement procedures that were flagged by the risk indicator system (from 11.5 percent in 2023 (using the old indicators) to 20 percent in 2026), subject to a maximum of 2,300 scrutinization procedures to account for capacity constraints in the State Audit Service.

Policy action as effectiveness condition[11]: The Borrower has enacted a law strengthening the independence and institutional capacity of the NSSMC in accordance with the IOSCO Principles.

61. ***Rationale:*** **Ukraine's financial sector lacks depth and diversification.** The sector is dominated by banks whose lending to the private sector is comparatively small, with private sector credit only accounting for 23.6 percent of GDP in 2021, compared to an average of 53.3 percent across the ECA region (excluding high-income countries). The non-banking sector and capital markets are underdeveloped, in parts due to an inadequate supervisory framework, and are unable to meet the financing needs of the economy. The governance of the securities market regulator and capital market's regulatory framework currently do not comply with the regulation, oversight and enforcement standards established by the International Organization of Securities Commissions (IOSCO). Specifically, IOSCO lays out 38 principles of securities regulation, which are based upon the objectives of (i) protecting investors, (ii) ensuring that markets are fair, efficient and transparent, and (iii) reducing systemic risk. Ukraine currently is not a signatory to the IOSCO memorandum as it is not compliant with its principles in areas related to regulatory governance and rating.

62. ***Substance of the policy action:*** **This policy action supports efforts to enhance the regulatory governance of securities markets.** Specifically, the policy action supports the approval of an updated legal framework that strengthens the National Securities and Stock Market Commission's (NSSMC) institutional set-up. The law will enhance the NSSMC's investigative powers, independence and institutional capacity, its cross-border and domestic cooperation mandate, and its mandate to undertake risk-based supervision. It will also improve the governance structure of the NSSMC by regulating the selection of the commission's governing bodies, including its head. The approval of the law will ensure Ukraine's compliance with IOSCO principles on regulatory governance.

63. ***Indicative trigger:*** **To complete the process of compliance with the IOSCO principles, the second operation will strengthen regulation and operational standards of rating agencies with the intention to improve the investment climate, revitalize investment processes, and reduce capital market risks.** Specifically, the trigger will support enactment of a draft law which pertains to credit rating agencies that provide ratings for investors, borrowers, issuers and governments as part of making informed investment and financing decisions. The law regulates approval procedures for accredited rating agencies and sets out quality and integrity standards. It also outlines clear principles to ensure their independence and establishes mechanisms for conflicts of interest prevention, transparency, as well as protection of confidential information. The law tasks the NSSMC with regulating and authorizing credit rating agencies and outlines clear sanctioning mechanisms and penalties if they do not comply with their responsibilities. In addition to aligning rating regulations with the IOSCO principles, the law also ensures that Ukraine meets the requirements of EU Regulation No. 1060/2009 on credit ratings.

64. ***Expected results:*** The reforms are jointly expected to strengthen supervision of securities markets in Ukraine and achieve compliance with the IOSCO principles, which is captured in the results framework. To verify achievement of this

[11] This policy action is at an advance stage of completion. To ensure its timely completion and minimize the delays in the disbursement of the loan proceeds, the enactment of this law will be required as a condition of effectiveness to the loan agreement.

result, the signing of the IOSCO memorandum as well as a technical review by the World Bank team will be used.[12]

Table 4: Analytical Underpinnings

Prior Actions and Conditions	Analytical Underpinnings
Operation Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.	
Prior Action 1: To reduce the distortionary impact of SOEs on competition and advance their commercialization, the Borrower has strengthened the accountability and independence of SOE supervisory boards, as evidenced through Law #3587-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.	The *World Bank Ukraine Growth Study 2019* and the on-going *Restoring Ukraine's Economic Growth ASA* identify distortions created by SOEs as a critical growth constraint.
Prior Action 2: To promote renewable energy generation, the Borrower has replaced the fixed feed-in tariff with a transparent auction-based incentive mechanism, as evidenced by Law #3220-IX dated June 30, 2023, and published in the Official Gazette on July 26, 2023.	The *Ukraine Country Private Sector Diagnostic 2023* identifies the importance of distributed renewable energy generation to reduce emissions and improve energy system resilience.
Prior Action 3: To enable the trading of renewable energy, the Borrower, through its CoM, has approved the institutional mechanism required to issue, circulate, and redeem guarantees of origin of electricity produced from renewable energy sources, as evidenced by Resolution #227 dated February 27, 2024.	
Prior Action 4: To improve farmers' access to loans through digital technologies, the Borrower has introduced a new financial instrument that allows for the use of agrarian notes as collateral, as evidenced by Law #3586-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.	The *Ukraine Country Private Sector Diagnostic 2023* suggests digitizing crop receipts to ensure access to affordable finance.
Prior Action 5: To efficiently use public funds to support the private sector's access to finance, the Borrower, through its CoM, has revised the 5-7-9 Loan Program to limit eligibility to SMEs exclusively, as evidenced by Resolution #1403 dated December 27, 2023.	A *World Bank technical review* of the 5-7-9 loan program suggested improving the targeting of the program by focusing it on smaller enterprises.
Prior Action 6: To facilitate export processing, the Borrower, through its CoM, has submitted to the Verkhovna Rada of Ukraine for approval on January 16, 2024, the draft Law #10411 amending the customs code of Ukraine and aligning it with the European Union customs legislation.	On-going work under the *Restoring Ukraine's Economic Growth ASA* and the *EUR Logistics ASA* identify large growth potential from trade facilitation and constraints related to border processing.
Operation Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment.	
Prior Action 7: To strengthen the land tax base, the Borrower, through its CoM, has approved the initiation of a pilot mass valuation of land values, as evidenced by Resolution #1078 dated October 13, 2023.	A roadmap for tax reform was produced through the *National Revenue Strategy* with World Bank and IMF technical assistance. *Deininger and Ali (2023)* show that there is a large discrepancy between normative and actual land values. A World Bank background note for the *National Revenue Strategy* suggests using computerized mass valuation to close this gap.
Prior Action 8: To reduce corruption in public procurement, the Borrower, through the Ministry of Finance and the Ministry of Economy, has adopted a joint order initiating and outlining the steps for the update of automatic risk indicators for e-procurement, as evidenced by Order #66/3757 dated February 12, 2024.	Technical assistance under the *Ukraine: Procurement System Enhancement Project (P180126, RE)* has identified challenges related to automatic risk indicators and supports their updating.

[12] The signature of the MoU demonstrates compliance of the law with the IOSCO principles regarding cooperation with foreign supervisors. A technical review by Bank staff will be undertaken to confirm alignment of the law with the other relevant IOSCO Principles (i.e., principles for the regulator, enforcement, credit rating agencies, and domestic cooperation).

Policy Action: The Borrower has enacted a law strengthening the independence and institutional capacity of the NSSMC in accordance with the IOSCO Principles.	*World Bank Review of Draft Law of Ukraine On Amending Certain Laws of Ukraine Regarding the Simplification of Attracting Investments and Implementing New Financial Instrument* that identifies non-compliance of regulations with IOSCO principles.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

65. **The DPO 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 Group 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 as priorities for the period from June 2023 to June 2024. This operation focuses on the last of these objectives.

66. **This DPO forms an important building block of the World Bank Group's broad operational engagement in Ukraine.** On the sectoral side, the operational engagement has included framework projects in critical infrastructure sectors, including housing and energy, and operations in social sectors, including the INSPIRE project, approved in November 2023, that advances the social protection agenda. This operation complements the sectoral engagement with a focus on institutional reforms for growth. Other operations directly complement this DPO through support to related areas, such as the Ukraine ARISE project that supports the 5-7-9 program in the agricultural sector. Similarly, program-for-results operations are under preparation in the public financial management/fiscal and support to the private sector areas to support critical implementation steps that complement the reforms supported in this DPO.

67. **Consistent with World Bank Group priorities, the reforms supported in this DPO series contribute to attracting private investment to renewable energy and by facilitating credit flows to the private sector.** Prior actions 2 and 3 strengthen market-based incentives for renewable energy investments. Prior action 4 helps alleviate collateral constraints for farmers to avail of financing by enabling the use of a new type of collateral, providing them with increased opportunities to obtain loans. This is captured through the targeted result of US$75 million in credit provided through collateral based on agrarian notes. Prior action 5 improves credit provision to SMEs through the re-targeting of an interest rate subsidy and thus reduces their financing costs for investment. These prior actions, especially prior action 4, were developed in close collaboration with the IFC.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

68. **The authorities have carried out consultations with stakeholders on the reforms supported by this operation.** These reforms are consistent with the Government's program which has been discussed with civil society, development partners, and the public through various channels. The authorities have also explained the rationale, design, and outcomes of supported reforms in the media. Supported legislative actions have been consulted on and widely debated in Parliament, which remains operational and transparent, with all laws published on the Parliament's website, including explanatory notes, discussions of social, environmental, and fiscal impacts, comparative tables and expert as well as committee opinions. Cabinet-level legal acts are also made publicly available for feedback.

69. **Stakeholder consultations have informed the design of this operation in two ways.** First, the supported reforms were selected among a larger set of on-going policy initiatives based on an assessment of impact and stakeholder feedback. Second, the legal content of most supported reforms, including on SOE corporate governance, energy, agrarian notes, the IOSCO law, and the 5-7-9 program, reflects multiple iterations of discussions between the authorities, domestic stakeholders, and Ukraine's international partners, aimed to ensure compliance with international standards while also safeguarding against stakeholder risks. For instance, the law supported under prior action 4 underwent detailed consultations through working groups that entailed key line ministries, financial sector regulators (including NBU) and

potential creditors. These meetings resulted in improved electronic security provisions and enhanced verification procedures.

70. **The proposed operation forms an integral part of a large multilateral support program for Ukraine that encompasses, in addition to the World Bank, the IMF, the European Union/Commission, and bilateral partners, including Japan, the United States and the UK.** The World Bank has coordinated the proposed DPO closely with these partners and has identified complementarities. In addition to collaboration with international development partners, the Bank's support for policy reforms has also benefited at the national level from collaboration with the private sector, academia, and civil society to ensure knowledge sharing and coordination of efforts.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

71. **There are positive welfare effects expected from reforms promoting competition and financial inclusion under pillar 1.** Indirect positive effects are expected from employment gains from improving competition in SOE dominated markets (Prior Action 1). Reforms bringing legislation to enable agrarian notes (Prior Action 4) and targeting of the 5-7-9 programs to SMEs (Prior Action 5) have progressive welfare gains because they foster financial inclusion by expanding access to credit for agricultural producers and smaller firms. The other reforms under pillar 1 are distribution neutral. The prior action on reforms of the customs code (Prior Action 6) does not introduce tariff changes. It is largely procedural. Hence it is expected to be distribution neutral. Reforms to enhance the renewable energy markets supported under prior actions 2 and 3 are also distribution neutral, as no impact on retail prices is anticipated.

72. **The prior action on the revision to the tax code under pillar 2 could have significant distributional impact.** Prior action 7 on strengthening the land base will likely have negative welfare effects, despite it being progressive. Land tax is based on normative values. Statistical analysis shows that the difference between sales price and normative value is a relatively modest 20 percent for commercial farmland but, with mean market prices more than 6 times the normative value, is vast for land in personal farms (Deininger and Ali, 2023). This implies that a shift to an economic value-based approach can increase land taxes for personal farm plot owners unless tax rates are adjusted. These models also show that attributes related to land use – such as built-up area and proximity to cities – explain a considerable portion of the deviation between normative values and market prices. Therefore, land taxes will increase much more for plots with higher economic value, hence the land tax incidence will, ceteris paribus, be progressive. The increases in land taxes will also vary geographically, with larger increases expected in regions like Lviv and Kyiv, where the normative value of land is respectively, 59 and 53 percent lower than the market price on average, after controlling for land attributes. Mitigation measures, including a potential adjustment of tax rate guidance to account for social impact, will need to accompany trigger 7 when the State Geo Cadaster defines the final valuation methodology and approves the updated valuations.

73. **The remaining actions under pillar 2 will have neutral welfare impacts in the short term, but could yield progressive gains in the future.** Strengthening security market supervision (Policy Action), will at worst do no harm, and at best, promote access to finance to household with intangible assets, who tend to be poorer. The prior action focused on the procurement system (prior action 8) will increase value for money in public procurement, which will be distribution neutral, but can also be progressive if these gains are translated into increasing financing service delivery which is pro-poor.

74. **Potential adverse poverty and social impacts that could arise from the supported SOE or tax reforms can be partially mitigated through the support of complementary operations and through close engagement during policy design.** Critical social assistance payments, including pensions, are financed through the World Bank's INSPIRE and Public Expenditures for Administrative Capacity Endurance projects, which help to ensure that social protection mechanisms remain intact. The INSPIRE project also supports, through performance-based conditions, efforts to better target Ukraine's

social assistance payments and prevent program overlap. Discussions on the design of reforms to land valuation and the excise tax system will seek to ensure that these adequately consider possible adverse poverty and social impacts.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

75. **The actions supported by this operation are not likely to cause any adverse environmental effect.** Prior actions 2 and 3 will likely cause a moderate positive environmental impact by supporting the transformations in the energy and electricity sector to increase the share of clean and renewable energy and thus decrease the fossil fuel share in the generation of electricity. Prior Action 6 can potentially improve environmental footprint of agricultural export operations by introducing EU customs legislation (and related requirements on waste management, resource efficiency and pollution prevention, as well as occupational and community health and safety) into the Customs Code of Ukraine.

76. **Potential adverse effects can be managed effectively through country systems.** Specifically, prior action 5 supports a reform to the 5-7-9 program that will rely on the advanced Environmental and Social Management System that has been developed in line with WB ESF and will be operationalized shortly as part of the World Bank supported ARISE project. More broadly, any adverse impacts arising from the 5-7-9 program can be mitigated by applying Ukraine's relevant environmental protection regulations, as well as applying sustainable finance principles which the Business Development Fund has adequate policies and expertise in.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

77. **The PFM system is reliable, the government has made progress in strengthening it in recent years, and it continues to function.** Amendments to the Budget Code (2646-VIII of 6 December 2018) established a legal basis for the introduction of a Mid-Term Budget Framework (MTBF). However, the Government approved a medium-term Budget Declaration only once – in 2021 (for 2022-2024) and has stopped this process since 2022 through the Budget Code's amendments. The latest Public Expenditure and Financial Accountability (PEFA) assessment for Ukraine was undertaken in 2019. It concluded that the Government had made progress in: (i) implementing medium-term budget planning; (ii) increasing transparency in public financial management; (iii) integration of International Public Sector Accounting Standards; (iv) improving forecasting tools and fiscal risk management; and (v) introducing a gender-oriented approach to budgeting. Challenges were identified in the areas of public investment management, medium-term expenditure framework implementation and budgeting and reporting of the social security fund in the payroll system. To address some of these challenges, the authorities approved a PFM Reform Strategy covering 2022-2025 in December 2021. Based on this, in 2022, the Ministry of Finance approved the methodology for preparing budget unit's proposals for the Budget Declaration. It is expected that in 2024 the Government will approve the Budget Declaration for 2025-2027.

78. **Public access to fiscal information is appropriate.** The Chart of Accounts, which underpins budget preparation, execution, and reporting, is comprehensive. Government finance statistics are produced monthly but during the martial law period, publishing of Treasury reports has been suspended. However, the MOF and NBU continue to provide monthly updates on expenditures and revenue. The MoF also publishes monthly data on the collection and spending of the resources, public and guaranteed debt. The MOF created an e-data portal (spending.gov.ua), which provides detailed information on public expenditure, and a web portal of the budget for citizens (openbudget.gov.ua), which provides data on the implementation of state and local budgets. Ukraine also improved its position in the Open Budget Index and scored especially well on budget oversight, with a score of 82 out of 100. Both portals are operational.

79. **Ukraine has advanced its public procurement system, but there are areas which could be further improved.** The Law on Public Procurement, which was adopted in December 2015, establishes legal and economic principles for procurement of goods and services. Starting from 2016, all public procurements are mandated to be made through the Prozorro centralized electronic procurement system. The tool provides for quick and thorough analysis of information on tenders, with easy and unlimited access granted to civil society. Despite the initial waving of the mandatory use of the e-

procurement system in 2022, the share of competitive procurement via the Prozorro system kept growing: 40 percent in terms of value in 2022 reaching 65 percent in the second half of 2023. However, the share of all public procurement on a competitive basis could increase further. More recently the authorities have upgraded the Prozorro modules to align its functionality with multilateral development banks' requirements for international procedures and have taken steps to train staff and consultants of the implementing agencies. It is expected that starting from March 2024, procurement under Bank financed operations would gradually transition to Prozorro even for international market approaches.

80. **The IMF completed safeguards assessments of the NBU in 2015, 2019, and 2023.** The assessments confirmed that the NBU has made progress in strengthening its governance and control environment. Its legal framework was amended in 2015, further improving financial autonomy and governance. In addition, its institutional framework has been substantially strengthened and modernized, focusing on core functions, and improving its decision-making processes and internal controls. The NBU also adopted a new ethics code for members of its decision-making bodies and for its staff. A new audit committee was established under the new NBU Council and an internal audit charter has been adopted. To address the credit risks stemming from the financial assistance to domestic banks, the loan management process and related risk management processes were reformed under a new loan management department. The 2023 safeguards assessment found that while the NBU has maintained a broadly strong safeguards framework, governance practices need to be strengthened further. The financial reporting, external and internal audit mechanisms, and risk management all continue to have sound practices.

81. **Disbursements.** The proposed Loan will be fully guaranteed by the ADVANCE Trust Fund and the Government of the United Kingdom. The loan proceeds will be disbursed in one single tranche to the existing treasury account at the NBU, to be used for budget financing, and will form part of Ukraine's official foreign exchange reserves. The proposed loan will follow the WB's procedures for development policy lending. Disbursement will be made upon declaration of loan effectiveness and submission of a withdrawal application to the World Bank. Within seven days of remittance of funds by the Bank, the Government will provide a confirmation to the World Bank that the funds have been received by the treasury account in the NBU and that these funds are available for financing budget expenditures.

82. **Additional fiduciary arrangements will be required for this operation, given active fighting in Ukraine which could affect PFM institutions and processes.** Such additional arrangements will include additional assurance aimed to confirm receipt of the funds into government US$ account and their further exchange and transfer to the government State Treasury account in UAH, and onward incorporation into the government budget. Such assurance will entail either an independent audit of these steps in the funds flow process, or review by World Bank staff of the mentioned transactions. For the same reason, fiduciary risk is considered high. Given the exceptionally uncertain context, it should be noted that these additional fiduciary arrangements may not fully cover the risks that arise from the sudden large increase in public expenditure combined with martial law-induced relaxation of select PFM procedures that allow for more flexibility but have also resulted in reduced expenditure transparency.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

83. **The Ministry of Finance is responsible for the overall coordination of the proposed operation while some of the line ministries are responsible for implementation in their respective areas.** The National Bank of Ukraine (NBU) and line ministries are responsible for reforms aimed at strengthening the accountability and independence of SOE supervisory boards. The Ministry of Energy is responsible for reforms promoting renewable energy generation. The NBU, National Securities and Stock Market Commission and the Ministry of Agrarian Policy and Food have responsibility for implementing reforms on introducing agrarian notes. Private sector financing and credit markets reforms are coordinated by the NBU. The Ministry of Finance is responsible for reforms aimed at facilitating customs processing (in coordination with State Customs Service) and strengthening measures on increasing budget tax revenues. Finally, the Ministry of Finance, the Ministry of Economy and state-owned enterprise Prozorro are responsible for implementing reforms to further ensure

procurement integrity and align it with EU standards. The specific expected results indicators, set out in Annex 1, will be used to monitor implementation of the operation. The Bank, in collaboration with the Ukrainian authorities, will monitor and evaluate the program's achievement of these results.

84. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions, conditions, or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, 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 World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

6. SUMMARY OF RISKS AND MITIGATION

85. **Owing to the unique circumstances, the overall risk of this operation is exceptionally high.** The risks to achieving the development outcome of the proposed DPO have been assessed using the Systematic Operations Risk-Rating Tool (SORT) (Table 4). The achievement of the development objective of this operation depends, first and foremost, on the evolution of active fighting and other related factors that are outside of the authorities' control. This results in high residual risks that cannot be mitigated.

86. **Political and governance risks are high.** These risks arise from the deep-rooted influence of powerful vested interests that could derail, or even reverse reforms supported by this operation. Reforms to enhance competition, for example, could attract resistance from elites that benefit from market power. These risks are mitigated by the government's willingness to advance major reforms, the strong voice of civil society in advocating for continued reforms, and Ukraine's continued cooperation with the international community and development partners in advancing institutional strengthening efforts.

87. **The macroeconomic residual risk to the PDO is rated high.** Ukraine's authorities have successfully stabilized the economy, but the inherent macroeconomic risk remains high because of uncertainty about foreign aid inflows in 2024, uncertainty about planned debt treatments and the overall economic uncertainty induced by sustained attacks, with continued fiscal pressure risking a diversion of attention from the implementation of longer-term structural reforms. Mitigation measures include policy efforts, including those supported by this operation on revenue and procurement, and the broader international support program, but residual risks remain high given the scale of the fiscal gap.

88. **Implementation risks, including from sector strategies and policies, institutional capacity, and fiduciary aspects, are high.** The proposed operation supports a multi-sectoral reform program that is subject to high risk related to the fragile security situation. Reforms in the energy sector that aim to improve renewable generation and trade may be derailed by renewed attacks on the electricity infrastructure. More broadly, many of the reforms supported by the proposed DPO require strong capacity for implementation and monitoring. These risks are mitigated in part by technical assistance provided by development partners (including the World Bank, the IMF and EU). Fiduciary risks arise because of increased expenditures combined with adjusted fiduciary requirements under martial law and are partially mitigated through efforts to strengthen the PFM system, including through procurement reforms supported by this operation.

89. **Stakeholder risks are high.** This operation supports reforms that may attract opposition from some stakeholders that could risk the development objective. Individuals and firms may oppose an increase of excise rates. The unbundling of the railway company may attract opposition from stakeholders, including employees. Mitigating factors involve strong preparatory work and buy-in to these reforms by the authorities and build-in consultation processes. For instance, the excise tax reform is anticipated in the National Revenue Strategy, will be implemented gradually and will be widely consulted on. Similarly, implementation of reforms related to railway unbundling are phased over an extended period and will be combined with adequate social measures.

90. **Other risks are high.** Such risks arise from two sources. First, the security situation remains extremely fragile. Active fighting, while now more localized in the eastern parts of the country, continues and may spread to other regions. Attacks on Ukraine's infrastructure and on civilian areas continue, imposing further unmitigable risks. Second, even if active fighting is contained eventually, risks emanate from uncertainty about the stability of Ukraine's security situation.

91. **Technical design risks are substantial.** Technical design risks are substantial, as the unique situation generates substantial uncertainty with regards to policy priorities and the authorities' ability to implement longer-term reforms. The programmatic design, coupled with an active sectoral program, partially mitigates this risk.

Table 4: Summary Risk Ratings

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

ANNEX 1: POLICY AND RESULTS MATRIX

DETAILED RESULTS FRAMEWORK

	Prior Actions, Conditions and Triggers		Results		
	Prior Actions and Conditions under DPO 1	*Triggers for DPO 2*	*Indicator Name*	*Baseline*	*Target*
Objective	***Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.***				
Increasing productivity by introducing market-based incentives in the SOE sector.	**Prior Action 1.** To reduce the distortionary impact of SOEs on competition and advance their commercialization, the Borrower has strengthened the accountability and independence of SOE supervisory boards, as evidenced through Law #3587-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.	**Trigger 1.** To enhance the competitiveness of the railway market, the Borrower has enacted legislation on railway transport that enhances competitive entry opportunities into the railway sector and improves its governance. **Trigger 2.** To reduce the state footprint in the banking sector, the Borrower has enacted a law on the sale of shares belonging to the state in the authorized capital of banks in the capitalization of which the state took part that establishes the legal basis for the privatization of state-owned banks and aligns	**Results Indicator 1.** Total dividends paid by State-Owned Enterprises to the Government.	UAH 35.1 billion (2023)	UAH 50 billion (2026)

		privatization procedures with international practice.			
Increasing productivity through efficient and environmentally conscious energy price signals.	**Prior Action 2.** To promote renewable energy generation, the Borrower has replaced the fixed feed-in tariff with a transparent auction-based incentive mechanism, as evidenced by Law #3220-IX dated June 30, 2023, and published in the Official Gazette on July 26, 2023. **Prior Action 3.** To enable the trading of renewable energy, the Borrower, through its CoM, has approved the institutional mechanism required to issue, circulate, and redeem guarantees of origin of electricity produced from renewable energy sources, as evidenced by Resolution #227 dated February 27, 2024.	**Trigger 3.** To encourage green energy production, the NEUR has approved regulatory legal acts that implement Law #3220.	**Results Indicator 2.** Total renewable energy capacity awarded or contracted under the Law #3220-IX.	0 GW (2023)	1 GW (2026)
Enabling capital accumulation in the agricultural sector.	**Prior Action 4.** To improve farmers' access to loans through digital technologies, the Borrower has introduced a new financial instrument that allows for the use of agrarian notes as collateral, as evidenced by Law #3586-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.	**Trigger 4.** To facilitate mortgage lending, the Borrower has enacted a law for the State Agrarian Registry that allows financial institutions to access the State Agrarian Registry for the evaluation of mortgage applications.	**Results Indicator 3.** Value of financing facilitated via agrarian notes.	US$0 (2023)	US$75 million, at least US$15 million of which accrues to female farmers and female-headed and female-

			Results Indicator 4. Outstanding credit to the agricultural sector.[13]	UAH 116 billion (2023)	owned firms (2026) UAH 150 billion (2026)
Enabling capital accumulation by improving access to finance.	**Prior Action 5.** To efficiently use public funds to support the private sector's access to finance, the Borrower, through its CoM, has revised the 5-7-9 Loan Program to limit eligibility to SMEs exclusively, as evidenced by Resolution #1403 dated December 27, 2023.	**Trigger 5.** To prevent unstructured bankruptcies, the Borrower has enacted a law on amending the code of Ukraine on bankruptcy procedures that facilitates the restructuring and recovery of businesses before they become insolvent.	**Results Indicator 5.** Share of new loans supported through the 5-7-9 program allocated to SMEs. **Results Indicator 6.** Number of cases successfully using preventive restructuring procedures.	95 percent (2023) 0 (2023)	100 percent, 20 percent of which accrue to female-headed and female-owned firms and female farmers (2026) 10 (total up to 2026)
Improving access to export markets by facilitating	**Prior Action 6.** To facilitate export processing, the Borrower, through its CoM, has submitted to the Verkhovna Rada of Ukraine for approval on January 16, 2024, the draft Law #10411	**Trigger 6.** The Cabinet of Ministers has amended the selection process for the leadership of the State Customs Service to ensure a	**Results Indicator 7.** Score on the Customs Logistics Performance Index.	2.4 (2023)	2.9 (2026, or latest available)

[13] See https://bank.gov.ua/files/3.3-Loans_e.xlsx.

customs processing.	amending the Customs Code of Ukraine and aligning it with EU customs legislation.	transparent and merit-based process that includes the constructive participation of international experts.			
	Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment.				
Strengthening domestic revenue.	**Prior Action 7.** To strengthen the land tax base, the Borrower, through its CoM, has approved the initiation of a pilot mass valuation of land values, as evidenced by Resolution #1078 dated October 13, 2023.	**Trigger 7.** To strengthen the land tax base, the State Geo Cadaster has updated land valuations from the pilot project and made them available at property level on their monitoring website. **Trigger 8.** To strengthen excise revenue generation and mitigate carbon emissions, the Borrower, through its Cabinet of Ministers, has approved the Budget Declaration for 2025-27, that approximates excise tax rates on motor fuel more closely with EU minimum levels.	**Results Indicator 8.** General government (consolidated, including social security contributions) tax revenue (% of GDP)	33.3 (2023)	35 (2026)
Ensuring procurement integrity and alignment with EU standards.	**Prior Action 8.** To reduce corruption in public procurement, the Borrower, through the Ministry of Finance and the Ministry of Economy, has adopted a joint order initiating and outlining the steps for the update of automatic risk indicators for e-procurement, as	**Trigger 9.** To prevent corruption in public procurement, the Ministry of Finance has issued an order that mandates the use of updated automatic risk indicators and their	**Results Indicator 9.** Percentage of procurement procedures scrutinized by the State Audit Services (SAS) from the procedures identified with red flags.	11.5 (2023)	20, subject to a maximum of 2,300 scrutinization procedures

	evidenced by Order #66/3757 dated February 12, 2024.	publication as part of the State Audit Service's regular reporting. **Trigger 10.** To align procurement rules with EU standards, the Borrower has amended the public procurement law that includes provisions that substantially put it in alignment with EU directives.			per year (2026)
Enhancing capital market supervision.	**Policy Action.** The Borrower has enacted a law strengthening the independence and institutional capacity of the NSSMC in accordance with the IOSCO Principles.	**Trigger 11.** To reduce information distortions in debt markets, the Borrower has enacted a law that establishes standards and regulates rating agencies.	**Results Indicator 10.** NSSMC's governance, powers, and oversight framework for credit rating agencies in compliance with IOSCO principles	No (2023)	Yes (2026)

RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
Increasing growth potential by enhancing productivity, capital accumulation, and access to export ma	
Total dividends paid by State-Owned Enterprises to the Government (Number)	
Dec/2023	Dec/2026
UAH 35.1 billion	UAH 50 billion

Total renewable energy capacity awarded or contracted under the law #3220-IX (Gigawatt)	
Dec/2023	Dec/2026
0	1
Value of financing facilitated via agrarian notes (Amount(USD))	
Dec/2023	Dec/2026
0	75 million, at least 15 million of which accrues to female farmers and female-headed and female-owned firms
Outstanding credit to the agricultural sector (Number)	
Dec/2023	Dec/2026
UAH 116 billion	UAH 150 billion
Share of new loans supported through the 5-7-9 program allocated to SMEs (Percentage)	
Dec/2023	Dec/2026
95 percent	100, 20 percent of which accrue to female-headed and female-owned firms and female farmers
Number of cases successfully using preventive restructuring procedures (Number)	
Dec/2023	Dec/2026
0	10 (cumulative)
Score on the Customs Logistics Performance Index (Number)	
Dec/2023	Dec/2026
2.4	2.9
Enabling a growth-inducive macro-financial policy framework	
General government tax revenue (% of GDP) (Percentage)	
Dec/2023	Dec/2026
33.3	35
Percentage of procurement procedures scrutinized by the State Audit Services (SAS) from the procedures identified with red flags (Percentage)	
Dec/2023	Dec/2026
11.5	20, subject to a maximum of 2,300 scrutinization procedures per year
Capital market supervision complies with international principles established by IOSCO (Yes/No)	
Dec/2023	Dec/2026
No	Yes

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Concludes the 2023 Article IV Consultation and the Second Review under the Extended Fund Facility Arrangement for Ukraine

December 11, 2023

- The IMF Board today concluded the 2023 Article IV consultation and completed the Second Review of the extended arrangement under the Extended Fund Facility (EFF) for Ukraine, allowing the authorities to draw the equivalent of about US$900 million (SDR 663.9 million), which will be channeled for budget support.
- The authorities have made strong progress toward their EFF commitments under challenging conditions, meeting all applicable quantitative performance criteria through end-June and indicative targets through end-September and the majority of structural benchmarks through end-October.
- The Ukrainian economy continues to show remarkable resilience, although the outlook remains subject to exceptionally high war-related uncertainty. Continued strong ownership and reform momentum—including domestic revenue mobilization combined with timely and predictable external financing—are necessary to safeguard macroeconomic stability, enhance institutional reforms, and support reconstruction efforts, while facilitating a green recovery on the path to European Union (EU) accession.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) today concluded the 2023 Article IV Consultation and completed the Second Review of the EFF arrangement for Ukraine. The completion of the second review enables the authorities to immediately draw an amount of about US$900 million (SDR 663.9 million).

Ukraine's 48-month EFF arrangement, with access of SDR 11.6 billion (equivalent to US$15.6 billion, or about 577 percent of quota), was approved on March 31, 2023, and forms part of a US$122 billion support package for Ukraine. The authorities' IMF-supported program aims to anchor policies that sustain fiscal, external, price and financial stability at a time of exceptionally high war-related uncertainty, support the economic recovery, as well as enhance governance and strengthen institutions to promote long-term growth in the context of reconstruction and Ukraine's path to EU accession.

The EFF continues to provide a strong anchor for the authorities' economic program, and its implementation has been broadly on track despite the extremely challenging backdrop. All quantitative performance criteria for end-June and indicative targets for end-September were met. The majority of structural benchmarks for end-October were also met, with the others completed with some delay; this progress underscores the authorities' continuing commitment to the overall reform agenda. In particular, the authorities have continued to advance their governance and anti-corruption agenda.

Despite Russia's war in Ukraine, macroeconomic indicators have been stronger than expected, contributing to upward revision in the growth outlook. Economic resilience has resulted in better growth outturns, continued sharp disinflation, and a stable FX market, including following the National Bank of Ukraine's exit from the exchange rate peg, backed by strong reserves. The baseline projection for real GDP growth in 2023 has been revised up to 4.5 percent. Growth is expected to somewhat soften in 2024 to 3–4 percent as the war continues. The outlook remains subject to significant risks related to the exceptionally high uncertainty stemming from the war, potential policy slippages, and delays or shortfalls in external financing.

Article IV discussions focused on foundational policies for strong, balanced, and green growth in the post-war era to support Ukraine's EU accession. The focus was on the appropriate macroeconomic policy frameworks, including the restoration of pre-war monetary and exchange rate policy frameworks, governance reforms, steps to revitalize the banking sector, to mitigate climate change, to help Ukraine achieve a high sustained growth path and raise living standards.

Following the Executive Board discussion on Ukraine, Ms. Kristalina Georgieva, Managing Director of the IMF, issued the following statement[1] (#_ftn1):

``Russia's invasion of Ukraine continues to bring enormous social and economic costs to Ukraine. However, Ukraine's economy has been resilient as a recovery takes hold, and macroeconomic and financial stability has been preserved, thanks to skillful policymaking by the Ukrainian authorities as well as substantial external support. Looking ahead, whereas the recovery is expected to continue, the outlook has significant risks stemming mainly from the exceptionally high war-related uncertainty. It is also critical that external financing on concessional terms continue on a timely and predictable basis and sustain the reform momentum.

``As the war prolongs, it continues to strain Ukraine's public finances. Timely external disbursements as well as continued effort on the domestic market are key to meeting Ukraine's financing needs and preserving macroeconomic and financial stability. In addition, decisive policy actions are needed to secure fiscal and debt sustainability. Revenue mobilization is a crucial pillar to help meet financing needs and support reconstruction and social spending. Fiscal priorities include launching the National Revenue Strategy, avoiding measures that erode the tax base, and progressing on reforms to further strengthen the frameworks for medium-term budget preparation, budget credibility, fiscal risks and transparency, and public investment management. A commercial debt treatment in line with program parameters will also help restore sustainability and create space for critical spending.

``As part of the National Bank of Ukraine's conditions-based strategy, the recent successful transition to a managed exchange rate regime is an important step toward normalizing the monetary and exchange rate policy frameworks, alongside the gradual easing of emergency FX measures. Continued evidence of sustained disinflation and stability in the FX cash market could support further easing in monetary policy. Whereas the financial sector has been stable and operational, heightened vigilance is required, and efforts to strengthen bank diagnostics, supervision, governance, and contingency planning should continue.

``Steadfast reform momentum to anti-corruption and governance frameworks will be essential to mitigate corruption risks and promote public trust and donor confidence. Decisive structural reforms, in public investment management, governance, and the business environment, can also begin to lay the groundwork for achieving strong, balanced, and green growth in the reconstruction phase and support Ukraine's path to EU accession. An integrated strategy for reconstruction will also help to mitigate fiscal risks and increase the efficiency of spending. Appropriate policy and reform choices can help support the return of migrants, investment flows and productivity growth needed to support a sustained high growth path in the years ahead. "

Table 1. Ukraine: Selected Economic and Social Indicators, 2021-27

	2021	2022	2023	2024	2025	2026	2027
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Real economy (percent change, unless otherwise indicated)							
Nominal GDP (billions of Ukrainian hryvnias) 1/	5,451	5,191	6,434	7,640	8,858	9,818	10,773
Real GDP 1/	3.4	-29.1	4.5	[3 to 4]	6.5	5.0	4.5
Contributions:							
Domestic demand	12.9	-23.7	8.3	4.1	5.6	4.3	3.8
Private consumption	4.7	-16.6	2.7	2.9	3.1	2.9	3.0
Public consumption	0.1	6.9	2.6	-1.1	-1.9	-0.6	-0.1
Investment	8.1	-13.9	3.0	2.3	4.4	1.9	0.9
Net exports	-9.5	-5.4	-3.8	-0.6	0.9	0.7	0.7
GDP deflator	24.8	34.3	18.6	14.7	8.9	5.6	5.0

Unemployment rate (ILO definition; period average, percent)	9.8	24.5	19.1	13.9	13.1	11.4	10.4
Consumer prices (period average)	9.4	20.2	13.0	7.7	7.8	6.0	5.2
Consumer prices (end of period)	10.0	26.6	6.0	9.5	6.5	5.5	5.0
Nominal wages (average)	20.8	1.0	20.1	16.8	16.1	13.3	10.5
Real wages (average)	10.5	-16.0	6.3	8.5	7.7	7.0	5.0
Savings (percent of GDP)	12.5	17.6	11.9	11.0	10.4	13.9	16.5
Private	12.7	30.8	27.3	24.4	14.1	14.6	15.4
Public	-0.2	-13.2	-15.4	-13.4	-3.6	-0.6	1.2
Investment (percent of GDP)	14.5	12.6	16.5	18.0	19.4	20.9	21.8
Private	10.7	10.1	13.4	15.7	14.9	16.4	16.8
Public	3.8	2.5	3.1	2.3	4.5	4.5	5.0
General Government (percent of GDP)							
Fiscal balance 2/	-4.0	-15.7	-18.6	-15.7	-8.1	-5.1	-3.8
Fiscal balance, excl. grants 2/	-4.0	-25.0	-27.1	-20.4	-10.2	-6.1	-4.8
External financing (net)	2.4	10.8	17.0	13.7	7.6	2.3	2.8
Domestic financing (net), of which:	1.6	5.1	1.5	2.1	0.5	2.8	1.0
NBU	-0.3	7.4	-0.2	-0.2	-0.1	-0.1	-0.1
Commercial banks	1.5	-1.5	2.0	2.2	0.6	2.9	1.0
Public and publicly-guaranteed debt	50.5	78.5	87.1	96.7	98.5	98.2	97.0
Money and credit (end of period, percent change)							
Base money	11.2	19.6	22.6	17.7	12.9	9.5	9.1
Broad money	12.0	20.8	22.8	18.2	9.8	9.5	10.6
Credit to nongovernment	8.4	-3.1	-7.5	9.5	17.2	16.1	15.5
Balance of payments (percent of GDP)							
Current account balance	-1.9	5.0	-4.6	-7.1	-9.0	-7.0	-5.2
Foreign direct investment	3.8	0.1	1.9	1.2	2.5	4.8	5.0
Gross reserves (end of period, billions of U.S. dollars)	30.9	28.5	39.5	40.9	41.0	41.6	45.9
Months of next year's imports of goods and services	4.5	3.8	5.1	5.3	5.1	5.0	5.2
Percent of short-term debt (remaining maturity)	67.5	66.1	85.4	94.1	86.9	89.0	92.6
Percent of the IMF composite metric (float)	98.9	92.9	109.7	99.0	94.2	90.4	96.4
Goods terms of trade (percent change)	-8.4	-11.6	4.3	-0.5	1.4	1.9	1.4
Exchange rate							

Hryvnia per U.S. dollar (end of period)	27.3	36.6	...	...	...	...	...
Hryvnia per U.S. dollar (period average)	27.3	32.3	...	...	...	...	...
Real effective rate (deflator-based, percent change)	10.4	27.6	...	...	...	...	...

Memorandum items:

Per capita GDP / Population (2017):
US$2,640 / 44.8 million

Literacy / Poverty rate (2022 est 3/): 100 percent /
25 percent

Sources: Ukrainian authorities; World Bank, World Development Indicators; and IMF staff estimates.

1/ GDP is compiled as per SNA 2008 and excludes territories that are or were in direct combat zones and temporarily occupied by Russia (consistent with the TMU).

2/ The general government includes the central and local governments and the social funds.

3/ Based on World Bank estimates.

[1] (#_ftnref1) At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm (http://www.IMF.org/external/np/sec/misc/qualifiers.htm).

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ANNEX 3: LETTER OF DEVELOPMENT POLICY

КАБІНЕТ МІНІСТРІВ УКРАЇНИ | **CABINET OF MINISTERS OF UKRAINE**

березня 2024 року
м. Київ

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Шановний пане Банга!

Від імені Уряду України користуємося цією можливістю, щоб висловити наші теплі вітання та вдячність Світовому банку і особисто Вам, пане Банга, за підтримку і допомогу Україні з початку російського вторгнення на територію України.

Останні два роки Світовий банк підтримував Україну через ряд проектів/програм. Проект “Підтримка державних видатків для забезпечення стійкого державного управління в Україні” (PEACE in Ukraine) надав підтримку Уряду України у виконанні основних державних функцій на національному і регіональному рівні із забезпечення стійкого державного управління в Україні. Цільовий фонд підтримки, відновлення, відбудови та реформування України (URTF) фінансував проекти, які допомогли Уряду України підтримувати його адміністративну спроможність надавати послуги та здійснювати заходи щодо надання допомоги під час планування та виконання програми відновлення, реконструкції та реформ. Операція щодо підтримки відновлення і розвитку та проект “Інвестиції у соціальний захист задля підвищення охоплення, стійкості та ефективності (INSPIRE)” підтримали наші зусилля з надання соціальної допомоги, сприяння економічному відновленню та підготовки України до відбудови. Екстрений проект надання інклюзивної підтримки для відновлення сільського господарства України (ARISE) запропонував малим фермерським господарствам та сільськогосподарським виробникам отримати доступні кредити та гранти на сільськогосподарське виробництво. Проекти “Зміцнення системи охорони здоров’я та збереження життя” (HEAL Ukraine) та “Ремонт житла для відновлення прав і можливостей людей” (HOPE) надали критично важливу підтримку відповідно нашим сектору охорони здоров’я та житлово-комунальному сектору, тоді як сектори енергетики та транспорту були підтримані проектами “Відновлення енергозабезпечення у зимовий період та постачання енергетичних ресурсів” (REPOWER) і “Відновлення критично важливої логістичної інфраструктури та мережевого сполучення” (RELINC).

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Щоб доповнити зазначені зусилля, поточна Операція політики розвитку (далі — Програма) зосереджена на структурному порядку денному, який дасть змогу Україні досягти своїх амбіцій щодо вступу до ЄС та збільшення рівня доходів. Програма підтримує політику, яка підвищує потенціал зростання економіки та створює основу макрофінансової політики, що стимулює зростання.

Завдяки наполегливим зусиллям і постійній підтримці наших міжнародних партнерів національна економіка демонструє перші ознаки відновлення. Після різкого спаду у 2022 році економіка повернулася до позитивних темпів зростання у 2023 році. Проте вторгнення Російської Федерації спричинило значні вимоги до бюджету, що відображено у дефіциті державного бюджету в розмірі 1,33 трлн. гривень за підсумками 2023 року. Ми вдячні за неоціненну підтримку, яку надали наші міжнародні партнери, зокрема Світовий банк, Міжнародний валютний фонд (МВФ), Сполучені Штати Америки, Європейський Союз, Уряд Японії та Уряд Сполученого Королівства Великої Британії та Північної Ірландії тощо. З урахуванням очікуваних значних фіскальних тисків Україна розраховує на підтримку, яку надаватимуть її міжнародні партнери у майбутньому.

З огляду на безпрецедентні виклики, спричинені вторгненням Російської Федерації, Україна надала пріоритет видаткам на оборону, соціальний захист та відновлення критичної інфраструктури, одночасно керуючи економікою та підтримуючи макроекономічну та фінансову стабільність. Цей тиск не завадив нам розробити нашу довгострокову програму структурних реформ. Прогрес, досягнутий з метою вступу України до Європейського Союзу, включаючи рішення Європейської Ради від 14 грудня 2023 р. про відкриття переговорів про вступ, заохочує нас продовжувати реалізацію цього порядку денного.

Незважаючи на надзвичайні виклики та невизначеність, які спричинило вторгнення Російської Федерації, ми залишилися відданими макроекономічній і фінансовій стабільності та продемонстрували нашу здатність підтримувати стабільні макроекономічні показники. Інфляція утримувалась під контролем, з річним зростанням індексу споживчих цін лише на 5,1 відсотка наприкінці 2023 року, валютні резерви досягли історичного піку у розмірі 41,7 млрд. доларів США в липні, а курс валюти залишався порівняно стійким під час переходу до режиму керованої гнучкості. Крім того, ми визначили порядок денний для вступу до Європейського Союзу та програму Міжнародного валютного фонду, що пройшла свій перегляд 11 грудня 2023 р., як опору для забезпечення макроекономічної та фінансової стабільності. Схвалення Національної стратегії доходів до 2030 року свідчить про нашу відданість зміцненню фіскальної спроможності. Ми також затвердили Дорожню карту реформування системи управління публічними інвестиціями з метою формування контексту, бачення, основних принципів та напрямів побудови цілісної, стійкої та ефективної системи управління публічними інвестиціями, яка забезпечує планування інвестиційних проектів на основі стратегічних пріоритетів та середньострокової бюджетної рамки, здійснення їх відбору відповідно до уніфікованих та прозорих процедур і чітких критеріїв та реалізацію в межах запланованих строків і фінансування.

Програму створено для підтримки наших зусиль щодо підвищення потенціалу зростання національної економіки. Вона спрямована на два пріоритетних напрями здійснення заходів державної політики: підвищення потенціалу зростання шляхом реалізації реформ, які сприяють підвищенню продуктивності, нагромадженню капіталу та доступу до експортних ринків, і створення сприятливих умов для зростання основ макрофінансової політики.

Реформи в рамках першого рівня Програми збільшують потенціал зростання економіки шляхом сприяння продуктивності, накопиченню капіталу та доступу до експортного ринку.

По-перше, ми прийняли Закон України від 22 лютого 2024 р. № 3587-IX "Про внесення змін до деяких законодавчих актів України щодо вдосконалення корпоративного управління", який реформує систему управління державними підприємствами, для впровадження конкурентних аспектів у їх управлінні та сприяння комерційній орієнтації державних підприємств. Зазначений Закон надає наглядовим радам повноваження призначати та звільняти генеральних директорів і затверджувати стратегічні та фінансові плани, захищає членів правління від необґрунтованого звільнення, запроваджує проведення обов'язкових незалежних аудитів та оцінки членів правління, а також закріплює конкурентний і прозорий процес відбору членів правління. Він також сприяє ринковій орієнтації та обмежує несприятливий фіскальний вплив державних підприємств шляхом надання повноважень Мінфіну затверджувати ключові фінансові цілі для державних підприємств і встановлення на обмежений час мінімальних дивідендів державних підприємств.

Ми плануємо доповнити цю реформу заходами, які зменшать антиконкурентний вплив державних підприємств у двох критично важливих для зростання секторах: залізничному та банківському. Зокрема, у середньостроковій перспективі ми плануємо розділити вертикально інтегровану Національну залізничну компанію на чотири незалежних і комерційно орієнтованих оператори. Щоб підготувати цю реформу, ми плануємо: і) протягом 12 місяців після прийняття Закону України "Про залізничний транспорт України" визначити оптимізований підхід до управління, надання доступу та встановлення тарифів за доступ до інфраструктури регіонального значення та ii) протягом 18 місяців після прийняття зазначеного Закону, по-перше, схвалити методику розмежування активів і обліку між функціями управління інфраструктурою та рухом поїздів, і, по-друге, визначити методику встановлення тарифів за доступ до інфраструктури, маючи на меті якомога повніше відшкодування собівартості. У середньостроковій перспективі ми плануємо також поступово приватизувати державні банки.

По-друге, ми визнаємо, що в майбутньому зростання необхідно не лише прискорити, але і зробити його екологічно стійким. Для цього ми провели реформи, які стимулюватимуть прискорений перехід до розподіленої системи відновлюваного енергогенерування. Зокрема, ми прийняли Закон України від 30 червня 2023 р. № 3220-IX "Про внесення змін до деяких законів України щодо відновлення та "зеленої" трансформації енергетичної системи України", що встановлює заснований на аукціоні механізм надходження премії, в якому право постачання відновлюваної енергії надається учаснику, який пропонує найнижчу вартість, і різниця між переможною пропозицією та ринковим тарифом виплачується переможцеві як премія. Зазначений Закон також встановлює операційну структуру "активних споживачів", які є суб'єктами, які споживають, але також постачають відновлювану енергію в мережу. Закон визначає передумови для статусу активного споживача і створює нових учасників ринку (агрегатора та оператора малих систем розподілу) для управління та забезпечення участі об'єктів розподіленого виробництва енергії. Отже, наведений Закон підсилює стимули для інвестицій у зменшенні витрат на відновлювану енергетику та забезпечує конкурентний доступ до прав на постачання. Крім того, Кабінет Міністрів України затвердив порядок видачі, обігу та погашення гарантій походження електричної енергії, виробленої з відновлюваних джерел енергії. Ці політики підкреслюють наше прагнення до сталого зростання шляхом прискореного переходу до системи розподіленої відновлюваної генерації.

По-третє, ми прийняли Закон України від 22 лютого 2024 р. № 3586-IX "Про аграрні ноти", що запроваджує аграрні ноти як новий фінансовий інструмент, який фермери можуть використовувати як заставу для отримання доступу до фінансування. Цими аграрними нотами можна торгувати та керувати за допомогою підписів, що зменшує витрати на їх випуск, розповсюдження та припинення дії. Крім того, зазначений Закон полегшує видачу аграрних нот шляхом розширення кола установ, яким дозволено видавати їх сільськогосподарським кооперативам, і дає змогу передавати під заставу більш розширений набір товарів, у тому числі худобу, продукцію тваринництва та продукти первинної переробки. Для подальшої підтримки доступу фермерів до фінансування ми передбачаємо надати фінансовим установам доступ до Державного аграрного реєстру для оцінки кредитних заявок. Такий доступ допоможе подолати інформаційні суперечки, надаючи банкам всебічне уявлення про активи та економічну діяльність заявника, а отже, забезпечить обґрунтовану кредитну експансію.

По-четверте, наші зусилля із зміцнення фінансового сектору спрямовано на поліпшення доступу малих і середніх підприємств до фінансування та забезпечення подальшої фінансової стабільності. Для цього Кабінет Міністрів України оновив Порядок надання фінансової державної підтримки суб'єктам підприємництва (Доступні кредити 5—7—9%) таким чином, щоб вона забезпечувала найбільший вплив на зростання за найменших фіскальних витрат. Зокрема, ми виключили з Державної програми великі підприємства. Усвідомлюючи, що вона стала головною рушійною силою кредитування приватного сектору після вторгнення Російської Федерації, ми також продовжили максимальний строк кредитування на інвестиційні цілі за зазначеною програмою до 10 років. У намаганні запобігти руйнівному банкрутству підприємств ми також працюємо над впровадженням процедур їх превентивної реструктуризації відповідно до нормативно-правових актів ЄС.

По-п'яте, Кабінет Міністрів України схвалив та вніс до Верховної Ради України проект Закону України, спрямований на комплексне оновлення Митного кодексу України, імплементацію кращого європейського митного досвіду в Україні та подальше приведення митного законодавства України у відповідність із законодавством ЄС. Щоб полегшити імпорт сировини, що використовується для виробництва експорту (і, отже, не підлягає оподаткуванню митом), зазначений законопроект транспонує систему економічних митних режимів ЄС, включаючи положення щодо складів, тимчасового ввезення, переробки на внутрішній та зовнішній сторонах, у законодавство України. Законопроект також запроваджує нові правила для митних агентів, спрощує процедури митної перевірки документів та вдосконалює процедуру використання постмитного аудиту. Законопроектом також передбачено надання повноважень митним органам України в електронній формі обмінюватися інформацією про вартість товарів з іноземними митними органами для здійснення митного контролю та використовувати електронні форми під час видачі рішень чи документів. Загалом реалізація згаданого законопроекту сприятиме міжнародній торгівлі, створить умови для посилення митних процедур для забезпечення їх належного застосування. Спираючись на цю реформу та результати реалізації попередніх дій, спрямованих на приведення митного законодавства України у відповідність із законодавством ЄС, ми плануємо зміцнити інституційну спроможність Держмитслужби, наприклад, шляхом вдосконалення процесу відбору її керівництва, щоб вона була заснована на заслугах і була прозорою, а також передбачала конструктивне залучення міжнародних експертів.

Реформи в рамках другого компонента Програми створюють структуру макрофінансової політики, що стимулює зростання.

По-перше, розширення доходів місцевих бюджетів матиме критичне значення для задоволення наших фіскальних потреб і надання адекватної підтримки національній економіці. Для реалізації цього порядку денного Кабінет Міністрів України прийняв постанову від 13 жовтня 2023 р. № 1078 "Деякі питання реалізації пілотного проекту щодо проведення масової оцінки земель", якою запроваджує загальнодержавну оцінку вартості землі. Зазначену постанову прийнято з метою впровадження Закону України від 2 травня 2023 р. № 3065-IX "Про внесення змін до деяких законодавчих актів України щодо вдосконалення правового регулювання вчинення нотаріальних та реєстраційних дій при набутті прав на земельні ділянки", який був підтриманий Світовим банком у рамках попередньої програми "Позика на підтримку політики розвитку та відновлення" та створив правову основу для такої масової оцінки земель.

Ми маємо намір продовжувати цю фазу реформ шляхом затвердження та подальшої публікації оновленої оцінки земель. Крім того, після забезпечення Мінагрополітики та Держгеокадастром введення в експлуатацію геоінформаційної системи масової оцінки земель у складі Державного земельного кадастру Мінфін розробить проект закону щодо внесення змін до Податкового кодексу України стосовно визначення розміру плати за землю (земельного податку та орендної плати за земельні ділянки державної та комунальної власності) на базі показників масової оцінки земель. Цей напрям реформування демонструє нашу незмінну відданість відкриттю та забезпеченню функціонування ринків землі, які було підтримано Програмою на відновлення економіки. У подальшому ми залишаємося відданими комплексному зміцненню функціонування, прозорості та ефективності ринку землі протягом наступних років.

Для отримання додаткових внутрішніх надходжень ми також плануємо підвищити ставки акцизного податку на окремі види підакцизних товарів, що було визначено пріоритетом у Національній стратегії доходів до 2030 року. У цьому контексті ми маємо на меті поступове підвищення ставки акцизного податку на алкогольні напої, тютюнові вироби і пальне до мінімуму, встановленого Директивами ЄС.

По-друге, ми визнаємо, що приватне фінансування матиме основоположне значення для уможливлення відбудови України, а для його ефективного посередництва необхідні дієві інститути фінансового ринку. Щоб наблизитися до цієї мети, ми прийняли Закон України від 22 лютого 2024 р. № 3585-IX "Про внесення змін до Закону України "Про державне регулювання ринків капіталу та організованих товарних ринків" та деяких інших законодавчих актів України щодо вдосконалення державного регулювання та нагляду на ринках капіталу та організованих товарних ринках", який удосконалює нагляд за ринками капіталу.

Зокрема, зазначений Закон розширює повноваження НКЦПФР щодо проведення розслідувань, незалежність та інституційну спроможність, її мандат щодо міжнародного співробітництва на внутрішніх ринках і мандат з проведення ризик-орієнтованого нагляду. У подальшому ми плануємо оновити нормативно-правові акти, що регулюють діяльність рейтингових агентств, щоб забезпечити дотримання принципів, установлених Міжнародною організацією регуляторів ринків цінних паперів (IOSCO), та вимог Регламенту ЄС № 1060/2009. Діючи разом, ці закони дадуть нам змогу дотримуватися міжнародних стандартів, установлених IOSCO, засвідчуючи відповідність нагляду за ринками капіталу в Україні передовій міжнародній практиці та сприяючи, в результаті, стабільності фінансового сектору, здатного адекватно підтримувати зростання.

По-третє, ми розпочали реформу, яка сприятиме подальшому зміцненню прозорості та підзвітності замовників у системі електронних закупівель. Це передбачає оновлення автоматичних індикаторів ризику, які відстежують дотримання процедур закупівлі, з використанням функціоналу в кабінеті аудитора в електронній системі закупівель. Ми плануємо доповнити цю реформу змінами до Закону України "Про публічні закупівлі", які приведуть його у відповідність із директивами ЄС.

У ширшому сенсі ми залишаємося відданими комплексній програмі зміцнення внутрішньої бази доходів державного бюджету відповідно до Дорожньої карти Національної стратегії доходів до 2030 року. Першим кроком, незважаючи на його відсутність у Матриці, стало прийняття Закону України від 21 листопада 2023 р. № 3474-IX "Про внесення змін до Податкового кодексу України щодо особливостей оподаткування банків та інших платників податків", який безповоротно збільшує ставку податку на прибуток підприємств у банківському секторі. Ця реформа поступово збільшує внутрішні надходження, не викликаючи викривлень. Ми маємо намір поширити підвищення ставки податку на прибуток підприємств на всі сектори, які дають значні прибутки. Ми плануємо також здійснити заходи, окреслені в Національній стратегії доходів, включно з переходом до прогресивного оподаткування доходу, реформою спрощеної системи оподаткування та приведення податку на додану вартість у відповідність із законодавством ЄС з одночасним скасуванням знижених ставок і пільг, які не передбачено Директивою ЄС про податки на додану вартість. Отже, реформи доходів, що підтримуються Програмою, є першим кроком до реалізації наведеного порядку денного.

Вторгнення Російської Федерації завдало нашій державі невимовної шкоди. Справляючись з безпосередніми економічними та соціальними наслідками, ми залишаємося відданими розробленню та впровадженню довгострокової програми структурних реформ, яка закладе основу для сталого економічного зростання та розвитку України.

З повагою

Прем'єр-міністр України **Денис ШМИГАЛЬ**

Unofficial Translation

КАБІНЕТ МІНІСТРІВ УКРАЇНИ

CABINET OF MINISTERS OF UKRAINE

March 2024, Kyiv

No. 5971/0/2-24 of March 08, 2024

Dear Mr. Banga,

On behalf of the Government of Ukraine, we take this opportunity to express our warm regards and gratitude to the World Bank and personally to you, Mr. Banga, for your support and assistance to Ukraine after the start of the Russian invasion of Ukraine's territory.

Over the past two years, the World Bank has consistently supported Ukraine through a range of projects/programs. The Public Expenditures for Administrative Capacity Endurance in Ukraine (PEACE in Ukraine) program has provided support to the Government of Ukraine in performing core public functions at the national and subnational levels for the administrative capacity endurance in Ukraine. The Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund (URTF) has financed projects that have helped the Government of Ukraine sustain its administrative capacity, deliver services, and conduct relief efforts, while planning and implementing Ukraine's recovery, reconstruction, and reform agenda. The Relief and Recovery Development Policy Operation and the Investing in Social Protection for Inclusion, Resilience, and Efficiency (INSPIRE) project have supported our efforts to provide social relief, foster economic recovery, and prepare Ukraine for reconstruction. The Ukraine Agriculture Recovery Inclusive Support Emergency (ARISE) project offered small farmers and agricultural producers to obtain affordable loans and grants to support agricultural production. The Health Enhancement and Lifesaving (HEAL) and the Housing Repair for People's Empowerment (HOPE) projects have provided critical support to our health and housing sectors, respectively, whereas the energy and transport sectors have benefited from the Restoration Project of Winterization and Energy Resources (REPOWER) and the Repairing Essential Logistics Infrastructure and Network Connectivity (RELINC) projects.

To: Mr. Ajay BANGA,

President of the World Bank,

Washington, D.C., the USA

To complement these efforts, the current Development Policy Operation ("Program") focuses on the structural agenda that will allow Ukraine to achieve its ambition of EU accession and income convergence. The program supports policies that lift the economy's growth potential and enable a growth-inducive macro-financial policy framework.

Through persistent effort and with the continued support of our international partners, the national economy is showing the first signs of recovery. After a sharp contraction in 2022, the economy has returned to a positive growth rate in 2023. Yet, Russian Federation's invasion has generated substantial demands on the budget, which are reflected in the fiscal deficit of UAH 1.33 trillion as of end-2023. We are grateful for the invaluable support that our international partners, including the World Bank, the International Monetary Fund (IMF), the United States of America, the European Union, the Government of Japan, and His Majesty's Government of the United Kingdom of Great Britain and Northern Ireland have provided us. Given that large fiscal pressures are expected to persist, Ukraine counts on the support that its international partners will provide in the future.

In the face of the unprecedented challenges that Russian Federation's invasion has presented, Ukraine has prioritized expenditure on defense, social protection, and reconstruction of critical infrastructure, while managing the economy and maintaining macroeconomic and financial stability. These pressures have not prevented us from developing our longer-term structural reform agenda. The progress made on Ukraine's accession to the European Union, including the European Council's decision on the 14 December 2023 to open the accession negotiations, encourages us to continue pursuing this agenda.

Despite the extreme challenges and uncertainty that Russian Federation's invasion has brought, we have remained committed to macroeconomic and financial stability and have demonstrated our ability to maintain stable macroeconomics aggregates. Inflation has been kept under control, with year-on-year CPI growth being at only 5.1 percent at the end of 2023, foreign exchange reserves reached a historic peak of US$ 41.7 billion in July, and the exchange rate has remained relatively stable during the transition to a regime of managed flexibility. Furthermore, we have established an agenda for accession to the European Union and an on-track IMF program – which passed its second review on 11 December 2023 – as anchors for macroeconomic and financial stability. The approval of the National Revenue Strategy 2030 highlights our commitment to strengthening our fiscal capacity. We have also approved a Public Investment Management roadmap to shape the context, vision, core principles, and focus areas for building an integral, sustainable, and efficient public investment management system that supports the planning of investment projects on the basis of strategic priorities and the medium-term budgetary framework, selecting them on the basis of unified and transparent procedures using clear-cut criteria, and implementing them within the planned timeframes and financing.

The Program is designed to support our efforts to lift the growth potential of the national economy. It focuses on two priority areas for policy action: increasing potential growth through reforms that enable productivity growth, capital accumulation, and access to export markets, and enabling growth-conducive conditions for the macro-financial policy framework.

The reforms under the first pillar of the Program increase the economy's growth potential by promoting productivity, capital accumulation, and access to export market.

First, we have adopted Law of Ukraine No. 3587-IX of February 22, 2024, "On Amending Some Legislative Acts of Ukraine to Improve Corporate Governance" which reforms the governance framework of the state-owned enterprises to embed competition considerations in their management and to advance the commercial orientation of state-owned enterprises. This Law transfers the power of appointing and dismissing CEOs and approving strategic and financial plans to the supervisory boards, protects board members from unreasonable dismissal, introduces mandatory independent audits and evaluations of board members, and enshrines a competitive and transparent selection process for board members. It also promotes market-orientation and limits adverse fiscal impacts of state-owned enterprises by empowering the Ministry of Finance to approve key financial targets for state-owned enterprises and establishing, for a limited time, a minimum dividend of state-owned enterprises.

We plant to complement this reform with interventions that reduce the anti-competitive impact of SOEs in two growth-critical sectors: railways and banking. Specifically, over the medium-term we plan to split the vertically integrated national railway company into four independent and commercially oriented operators. To prepare this reform, we plan to: (i) within 12 months after the Law of Ukraine "On Railway Transport in Ukraine" is adopted, define a tailored approach for the management, access and setting of access tariffs for infrastructure of regional importance; and (ii) within 18 months after that Law is adopted, firstly, adopt the methodology for assets and accounting separation between the infrastructure management functions and train operations, and, secondly, define the methodology for infrastructure access charges aiming as much as possible for full cost recovery. We also plan to gradually privatize state-owned banks in the medium-term.

Second, we recognize that growth going forward will not only need to accelerate but will also have to be environmentally sustainable. To this end, we have carried out reforms that will incentivize an accelerated transition to a distributed renewable generation system. Specifically, we have adopted Law of Ukraine No. 3220-IX dated June 30, 2023 "On Amending Some Laws of Ukraine Aimed at Restoration and Green Transformation of Ukraine's Energy System" which establishes an auction-based feed-in-premium mechanism, in which the right to supply renewable energy is granted to the bidder who proposes the lowest cost, and where the difference between the winning bid and the market tariff is paid as a premium to the winning bidder. That Law also sets out the operational framework of "active consumers" which are entities that consume from, but also supply renewable energy to the grid. It specifies the preconditions for becoming an active consumer and establishes new market participants (the aggregator and small distribution system operator) to manage and enable the participation of distributed energy generation facilities. Therefore, that Law enhances the incentives for loss-reduction investments in renewable generation and ensures competitive access to supply rights. In addition, the Cabinet of Ministers of Ukraine has approved a procedure required for issuing, circulating, and redeeming guarantees of origin of electricity produced from renewable energy sources. These policies highlight our commitment to sustainable growth through an accelerated transition to a distributed renewable generation system.

Third, we have adopted Law of Ukraine No. 3586-IX of February 22, 2024, “On Agrarian Notes”, which introduces agrarian notes as a new financial instrument that can be used as collateral by farmers to access financing. This digital version of these agrarian notes can be traded and managed using signatures, reducing the cost of issuing, circulating, and terminating them. In addition, that Law facilitates the issuance of agrarian notes by expanding the range of institutions allowed to issue them to agricultural cooperatives and allows for the pledging of a wider set of commodities as collateral, including livestock, animal products, and primary processing products. To further support farmers’ access to finance, we envision to grant financial institutions access to the State Agrarian Registry for evaluating loan applications. Such access will help overcome information frictions, providing banks with a comprehensive view of an applicant’s assets and economic activity, and thus enable an informed credit expansion.

Fourth, our efforts to strengthen the financial sector focus on improving access to finance for small and medium-sized enterprises and ensuring continued financial stability. To this end, the Cabinet of Ministers has updated the Procedure for Granting State Financial Aid to Business Entities (Affordable Loans 5-7-9%) so that it delivers the highest growth impact at the lowest fiscal cost. Specifically, we have excluded big enterprises from the State Program. Recognizing that it has become the main engine of private sector lending since Russian Federation’s invasion, we have also extended the maximum term of investment lending under that Program to 10 years. In an effort to prevent disruptive firm bankruptcies, we are also working on introducing preventive restructuring procedures, in line with EU regulations.

Fifth, the Cabinet of Ministers has approved and submitted to the Verkhovna Rada a draft Law of Ukraine aimed at updating the Customs Code of Ukraine comprehensively, implementing the European best customs practices in Ukraine, and further aligning Ukraine’s customs laws with the EU law. To facilitate the import of inputs that are used to produce exports (and are thus not subject to duties), the draft law transposes the EU’s system of economic customs regimes, including provisions for warehouses, temporary admission, and inward and outward processing, into Ukrainian law. The draft law also introduces new rules for customs agents, simplifies the document checks by customs, and improves the post-clearance audit application procedure. The draft law also provides for authorizing Ukraine’s customs bodies to exchange value information electronically with foreign customs bodies for customs control purposes and to use electronic forms when issuing decisions or documents. Overall, implementing that draft law will be conducive to international trade and will create conditions for strengthening customs procedures to ensure their adequate enforcement. Building upon this reform and results of the implementation of prior actions aimed at aligning Ukraine's customs laws with the EU legislation, we plan to strengthen the institutional capacity of the State Customs Service, for instance, by improving the process for selecting the leadership of the State Customs Service to ensure it is merit-based and transparent, and provides for the constructive involvement of international experts.

The reforms under the second pillar of the Program enable a growth-conducive macro-financial policy framework.

First, broadening our local budgets' revenue base will be critical to meet our fiscal needs and to provide adequate support to the national economy. To advance on this agenda, the Cabinet of Ministers of Ukraine has approved Resolution No. 1078 of October 13, 2023, "Some Issues of Implementing a Mass Land Valuation Pilot Project" which implements a nationwide assessment of land values. This resolution implements Law of Ukraine #3065-IX of May 2, 2023, "On Amending Some Legislative Acts of Ukraine to Improve Legal Regulation of Notarization and Registration Actions While Acquiring Interests in Land Plots" which was supported by the World Bank under its previous Relief and Recovery Development Policy Loan program and established the legal basis for such mass valuation of land.

We intend to pursue further this steam of reforms through the approval and subsequent publication of the updated land valuations. Furthermore, once the Ministry of the Agrarian Policy and the State Geodesy, Cartography and Cadaster Service put into operation the mass land valuation geographic information system as a part of the State Land Cadaster, the Ministry of Finance of Ukraine will develop a draft law to amend the Tax Code of Ukraine with regard to setting the rate of the land charge (the land tax and the rent for state-owned and municipally owned land plots) on the basis of indicators of the mass land valuation. This reform stream demonstrates our continued commitment to the opening and operationalization of land markets, which was supported by the Economic Recovery Program. Going forward, we are committed to comprehensively strengthen the functioning, transparency, and efficiency of the land market over the next years.

To generate additional domestic revenue, we also plan to increase the excise tax rates for some excisable goods, which has been identified as a priority in the National Revenue Strategy until 2030. In this context, we aim to gradually increase excise tax rates on alcoholic beverages, tobaccos, and fuel to the minimum level set by the EU Directives.

Second, we recognize that private financing will be fundamental to enable Ukraine's reconstruction and that its efficient intermediation requires effective financial market institutions. To come closer to this goal, we have adopted Law of Ukraine 3585-IX of February 22, 2024, "On Amending the Law of Ukraine "On State Regulation of Capital Markets and Organized Commodity Markets" and Some Other Legislative Acts of Ukraine to Improve State Regulation and Oversight of Capital Markets and Organized Commodity Markets" that improves the oversight of capital markets. Specifically, that Law enhances the NSSMC's investigative powers, independence and institutional capacity, its cross-border domestic cooperation mandate, and its mandate to undertake risk-based supervision. Going forward, we plan to update the regulations for rating agencies to ensure compliance with the principles established by the International Organization of Securities Commissions (IOSCO) and the requirements of EU Regulation No. 1060/2009. Taken together, these laws will allow us to comply with the international standards established by IOSCO, certifying that capital market supervision in Ukraine meets international best practice, and ultimately contributing to a stable financial sector that can adequately support growth.

Third, we have initiated a reform stream that will further strengthen the transparency and accountability of procuring entities in the e-procurement system. This involves updating the automatic risk indicators monitoring compliance with procurement procedure using the functionality available in the Auditor's Office in the e-procurement system. We plan to complement this reform with amendments to the Law of Ukraine "On Public Procurement" that align it with EU directives.

More broadly, we are committed to a comprehensive program to strengthen our domestic revenue base, following the Roadmap of the National Revenue Strategy 2030. Adopting Law of Ukraine No. 3474-IX of November 21, 2023, "On Amending the Tax Code of Ukraine with Regard to Specifics of the Taxation of Banks and Other Tax Payers" that irrevocably increases the rate of the corporate income tax for the banking sector was the first step in spite of its absence from the Framework. This reform increases domestic revenue in a progressive manner without inducing distortions. We intend to extend the increase in the corporate income tax rate to all sectors that generate significant profits. We also plan to take measures outlined in the National Revenue Strategy, including moving towards progressive income taxation, reforming the simplified tax system, and bringing value added tax into compliance with EU legislation while canceling reduced rates and benefits that are not provided for by the EU Value Added Tax Directive. Thus, revenue reforms supported by the Program are the first step toward implementing the presented agenda.

Russian Federation's invasion has imposed an unspeakable harm on our country. While managing its immediate economic and social impact, we have remained committed to designing and implementing a longer-term structural reform agenda that will lay the foundations for sustained economic growth and development of Ukraine.

Respectfully,

Denys SHMYHAL
Signature
Prime Minister of Ukraine

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions/Conditions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.		
Prior Action 1: To reduce the distortionary impact of SOEs on competition and advance their commercialization, the Borrower has strengthened the accountability and independence of SOE supervisory boards, as evidenced through Law #3587-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.	This PA is not likely to cause any adverse environmental effects.	Yes, positive.
Prior Action 2: To promote renewable energy generation, the Borrower has replaced the fixed feed-in tariff with a transparent auction-based incentive mechanism, as evidenced by Law #3220-IX dated June 30, 2023, and published in the Official Gazette on July 26, 2023.	This PA is not likely to cause any adverse environmental effects.	No.
Prior Action 3: To enable the trading of renewable energy, the Borrower, through its CoM, has approved the institutional mechanism required to issue, circulate, and redeem guarantees of origin of electricity produced from renewable energy sources, as evidenced by Resolution #227 dated February 27, 2024.	This PA is not likely to cause any adverse environmental effects.	No.
Prior Action 4: To improve farmers' access to loans through digital technologies, the Borrower has introduced a new financial instrument that allows for the use of agrarian notes as collateral, as evidenced by Law #3586-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.	This PA is not likely to cause any adverse environmental effects.	Yes, positive.
Prior Action 5: To efficiently use public funds to support the private	This PA is not likely to cause any adverse environmental effects.	Yes, positive.

sector's access to finance, the Borrower, through its CoM, has revised the 5-7-9 Loan Program to limit eligibility to SMEs exclusively, as evidenced by Resolution #1403 dated December 27, 2023.		
Prior Action 6: To facilitate export processing, the Borrower, through its CoM, has submitted to the Verkhovna Rada of Ukraine for approval on January 16, 2024, the draft Law #10411 amending the customs code of Ukraine and aligning it with the European Union customs legislation.	This PA is not likely to cause any adverse environmental effects.	No.
Operation Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment.		
Prior Action 7: To strengthen the land tax base, the Borrower, through its CoM, has approved the initiation of a pilot mass valuation of land values, as evidenced by Resolution #1078 dated October 13, 2023.	This PA is not likely to cause any adverse environmental effects.	No.
Prior Action 8: To reduce corruption in public procurement, the Borrower, through the Ministry of Finance and the Ministry of Economy, has adopted a joint order initiating and outlining the steps for the update of automatic risk indicators for e-procurement, as evidenced by Order #66/3757 dated February 12, 2024.	This PA is not likely to cause any adverse environmental effects.	No.
Policy Action: The Borrower has enacted a law strengthening the independence and institutional capacity of the NSSMC in accordance with the IOSCO Principles.	This PA is not likely to cause any adverse environmental effects.	No.

ANNEX 5: PARIS ALIGNMENT ASSESSMENT

Program Development Objective(s): The objectives of the operation are to (i) strengthen the economic policy framework to facilitate a structural shift towards sustainable growth; and (ii) enhance macro-financial stability to create a growth-conducive environment.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	Yes. The program is fully consistent with Ukraine's climate commitments, namely the NDC, Long-term Strategy (LTS) and Strategy for Environmental Security and Adaptation to Climate Change for the period up to 2030. The Ukrainian NDC target corresponds to an economywide absolute GHG reduction of 65% by 2030, compared to 1990 GHG emissions level. Prior Action 2 and 3 are directly contributing to the target in the Energy sector. Prior Actions 4 and 5 are supporting growth in potentially emission-intense sectors. However, in the specific development context of Ukraine, reforms to sustain economic development are crucial, such as the access to finance for SMEs and farmers. Therefore, in the specific context of Ukraine, the program is consistent with the commitments. The other prior actions are public administration reforms that do not hinder the achievement of Ukraine's climate commitments. Therefore, the reforms supported by the DPO are consistent with the country's national climate action plans.

Mitigation goals: assessing and reducing the risks	
Pillar 1	
Prior Actions 1, 2, 3, 4, 5 and 6	
Prior Action 1	To reduce the distortionary impact of SOEs on competition and advance their commercialization, the Borrower has strengthened the accountability and independence of SOE supervisory boards, as evidenced through Law #3587-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** Prior Action 1 is a public administration reform and is not likely to have an impact on Ukraine's GHG emissions or create persistent barriers to a low-carbon development and can therefore be considered universally aligned with the goals of the Paris agreement.
Prior Action 2	To promote renewable energy generation, the Borrower has replaced the fixed feed-in tariff with a transparent auction-based incentive mechanism, as evidenced by Law #3220-IX dated June 30, 2023, and published in the Official Gazette on July 26, 2023.
Prior Action 3	To enable the trading of renewable energy, the Borrower, through its CoM, has approved the institutional mechanism required to issue, circulate, and redeem guarantees of origin of electricity produced from

	renewable energy sources, as evidenced by Resolution #227 dated February 27, 2024.
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** Prior Actions 2 and 3 will not cause significant increase of GHG emissions. They will directly contribute to GHG emission reductions by promoting renewable energy generation and trade and can therefore be considered universally aligned with the goals of the Paris agreement.
Prior Action 4	To improve farmers' access to loans through digital technologies, the Borrower has introduced a new financial instrument that allows for the use of agrarian notes as collateral, as evidenced by Law #3586-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.
Prior Action 5	To efficiently use public funds to support the private sector's access to finance, the Borrower, through its CoM, has revised the 5-7-9 Loan Program to limit eligibility to SMEs exclusively, as evidenced by Resolution #1403 dated December 27, 2023.
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** Prior Actions 4 and 5 will support access to financing for agricultural companies and SMEs. The support programs will not promote GHG-emissive infrastructure specifically but may increase GHG emissions as a result of increased activity. However, considering that only SMEs are eligible and the emission-intensive activities are not specifically supported, the overall increase in GHG emissions resulting from these reforms is estimated to be low and therefore the reforms will not cause a significant increase of GHG emissions.
Prior Action 6	To facilitate export processing, the Borrower, through its CoM, has submitted to the Verkhovna Rada of Ukraine for approval on January 16, 2024, the draft Law #10411 amending the customs code of Ukraine and aligning it with the European Union customs legislation.
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**No.** Prior Action 6 is a public administration reform and is not likely to have an impact on Ukraine's GHG emissions or create persistent barriers to a low-carbon development and can therefore be considered universally aligned with the goals of the Paris agreement.
Conclusion Pillar 1 (Prior Actions 1,2,3,4,5,6): All six Prior Actions from Pillar 1 are aligned with the mitigation goals of the Paris Agreement.	
Pillar 2	
Prior Action 7, Prior Action 8, Policy Action	
Prior Action 7	To strengthen the land tax base, the Borrower, through its CoM, has approved the initiation of a pilot mass valuation of land values, as evidenced by Resolution #1078 dated October 13, 2023.
Prior Action 8	To reduce corruption in public procurement, the Borrower, through the Ministry of Finance and the Ministry of Economy, has adopted a joint order initiating and outlining the steps for the update of automatic risk indicators for e-procurement, as evidenced by Order #66/3757 dated February 12, 2024.

<table>
<tr><td>Policy Action</td><td>To improve supervision of securities markets, the Borrower has issued a law strengthening the independence and institutional capacity of the NSSMC in accordance with the IOSCO Principles</td></tr>
<tr><td>Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?</td><td>No. All prior actions of Pillar 2 are reforms in the public administration sector and are not expected to cause significant increase of Ukraine’s GHG emissions or create persistent barriers to a low-carbon development and can be therefore considered universally aligned.</td></tr>
<tr><td colspan="2">Conclusion Pillar 2 (Prior Action 7, Prior Action 8, Policy Action): All two Prior Actions and the Policy Action from Pillar 2 are aligned with the mitigation goals of the Paris Agreement.</td></tr>
<tr><td colspan="2">Conclusion Mitigation Goals for the DPO: The operation is aligned with the mitigation goals of the Paris Agreement.</td></tr>
<tr><td colspan="2" align="center">Adaptation and resilience goals: assessing and managing the risks</td></tr>
<tr><td colspan="2">The program has been screened for climate and disaster risks, with an emphasis on the two priority sectors energy and public administration, law and justice.
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, the urban environment and forests. Due to climate change, Ukraine has experienced increased frequency and severity of natural disasters (such as droughts and floods) - causing in many cases, fatalities and leading to significant economic losses. While currently the risks from climate hazards on the sectors are assessed as low, rising temperatures, shifts in precipitation and flooding, droughts and water scarcity, and wildfires may have low impacts in the future. Annual average temperatures are projected to further increase, and heatwaves to become more frequent. Variability in precipitation is projected to increase throughout the country, potentially leading to higher risks of floodings and droughts. This might also influence the risks of wildfires in certain oblasts that are already frequent in Ukraine.
Overall, the risk rating from future potential impacts of climate and geophysical hazards to these priority sectors and therefore the program is low as climate and geophysical hazards are unlikely to affect the achievement of the development goals and the outcome of this operation.</td></tr>
<tr><td>Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.</td><td>Prior Actions 1, 2, 3, 4, 5, 6</td></tr>
<tr><td>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</td><td>No. Based on the climate and disaster risk screening conducted for this DPO, the anticipated risks from climate hazards in Ukraine to reforms adopted under this Pillar were found to be low. The climate-related hazards as mentioned above are not expected to significantly impact the effectiveness of the prior actions in Pillar 1.
The aimed outcomes of the proposed reforms in energy and public administration are not expected to be affected by risks from climate hazards.</td></tr>
<tr><td colspan="2">Conclusion Pillar 1 (Prior Actions 1, 2, 3, 4, 5 and 6): All six Prior Actions from Pillar 1 are aligned with the adaptation and resilience goals of the Paris Agreement.</td></tr>
<tr><td></td><td></td></tr>
</table>

Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment.	Prior Action 7, Prior Action 8, Policy Action.
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	No. Based on the climate and disaster risk screening conducted for this DPO, the anticipated risks from climate hazards in Ukraine to reforms adopted under this Pillar were found to be low. The climate-related hazards such as extreme precipitation, heatwaves, droughts, and geophysical hazards (e.g., earthquake) are not expected to significantly impact the effectiveness of the prior actions in Pillar 2. The aimed outcomes of the proposed reforms in public administration are not expected to be affected by risks from climate hazards.
Conclusion Pillar 2: All two Prior Actions and the Policy Action from Pillar 2 are aligned with the adaptation and resilience goals of the Paris Agreement.	
Conclusion Adaptation and Resilience Goals for the DPO: The operation is aligned with the adaptation and resilience goals of the Paris Agreement	
OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT: The operation is aligned with the goals of the Paris Agreement	