



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 31-Aug-2016 | Report No: PIDISDSC18959



BASIC INFORMATION

A. Basic Project Data

Country Ukraine	Project ID P156766	Parent Project ID (if any)	Project Name Access to Long Term Finance (P156766)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Nov 08, 2016	Estimated Board Date Dec 08, 2016	Practice Area (Lead) Finance & Markets
Lending Instrument Investment Project Financing	Borrower(s) UkrEximbank	Implementing Agency UkrEximbank	

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Financing (in USD Million)

Financing Source	Amount
International Bank for Reconstruction and Development	150.00
Total Project Cost	150.00

Environmental Assessment Category
F-Financial Intermediary Assessment

Concept Review Decision
Track II-The review did authorize the preparation to continue

Other Decision (as needed)

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B. Introduction and Context

Country Context

Severe shocks, combined with a backlog of structural reforms, resulted in a serious economic crisis in 2014-2015. The authorities adopted decisive reforms to stabilize the economy and reduce large imbalances. Prospects for economic recovery remain weak and depend on how the conflict in the East unfolds and whether reforms on multiple fronts can be advanced in a complex political environment.

Sectoral and Institutional Context

Ukraine’s financial sector is undergoing a major transformation since 2014, including an ongoing cleanup of weak institutions and the diminishing dominance of domestic private banks. The structure of exports is also experiencing a landmark geographical shift towards the West, demanding corporate flexibility towards market diversification, and more capital intensive and sophisticated products. Long term finance for capital investment remains scarce, risking



that the country may fall short of its full export potential. Access to finance for SMEs is particularly constrained, regardless of tenor or purpose of use. UkrEximbank mission is to support exporters, and the bank has worked with the World Bank towards this goal under the Export Development Project (EDP) series. The authorities, with the help of the World Bank, are pursuing a comprehensive SOB reform agenda, which will refocus UkrEximbank's mandate, governance and risk management practices towards its eventual partial privatization.

Relationship to CPF

The project is consistent with and supports the IBRD/IFC/MIGA Country Partnership Strategy (CPS) for the FY12-16 period.

C. Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve access to longer term finance for export oriented small, medium, and large enterprises involved in domestic supply chains.

Key Results (From PCN)

Key PDO indicators include the following: (i) Ratio of the average maturity of sub-finance under the project, over the average maturity of Participating Financial Intermediaries' (PFIs) portfolio (for Large Enterprises –LEs- or SMEs and by PFI); and (ii) Number of LEs or SME beneficiaries financed under the project. Key intermediate indicators and additional indicators, monitored for analytical purposes and aimed to help improve exports and SME related policies and projects will also be developed.

D. Concept Description

Two project components will provide a total of US\$150 million to be intermediated by UkrEximbank through on-lending to banks and by direct lending targeting export oriented SMEs and LEs with domestic value chains. The credit line, guaranteed by the Ukrainian government, will be intermediated by UkrEximbank, which will be the Borrower and implementing agency for this project.

Under Component 1 (US\$100 million), UkrEximbank will on-lend funds through PFIs. UkrEximbank will select PFIs pursuant to criteria agreed with the World Bank, and subject to no objection by the World Bank. The selected PFIs will, in turn, provide sub-finance to private export oriented LEs and SMEs, the final beneficiaries of the credit line. The PFIs will assume the credit risk of the sub-borrowers that will be selected based on agreed upon eligibility criteria. UkrEximbank will have exposure only to the selected PFIs and will assume the credit risk for on-lending funds to PFIs. Sub-finance will be for longer term capital investment and working capital financing (to accommodate the nature of export finance, potential delays in the payments for goods sold and services provided in an uncertain macro-financial environment, as well as, more generally, to provide flexibility to smaller size enterprises).

Under Component 2 (US\$50 million), UkrEximbank will act as a PFI. UkrEximbank will lend directly to export oriented SMEs only, assuming the credit risk of sub-finance to the sub-borrowers. The eligibility criteria of sub-finance and for



sub-borrowers will be different under Component 1 and 2 to reflect the differences in financing models. UkrEximbank direct lending will be more targeted (e.g. in terms of targeting only SMEs, longer maturity, etc.).

Project preparation will include detailed definition of eligibility criteria, and terms and conditions: (i) the Loan terms and conditions between IBRD and UkrEximbank; (ii) the eligibility criteria for the PFIs that will be financed by UkrEximbank, and the terms and conditions of subsidiary finance between UkrEximbank and PFIs; and (iii) the eligibility criteria for the LEs and SMEs that will be financed by PFIs (and separately UkrEximbank under direct financing), and terms and conditions of sub-finance between PFIs (and separately UkrEximbank under direct financing) and LEs/ SMEs.

The Project may include a third component to assist UkrEximbank with its reform process.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

UkrEximbank and PFIs will provide sub-loans to SMEs and Large Enterprises (LEs) throughout Ukraine, so the project locations are unclear at this moment. The client will need to prepare an umbrella framework (environmental and social management framework-ESMF) to discuss the process of sub-project screening, impact assessment and due-diligence analysis as per national environmental requirements and safeguard policies of the Bank. There is no sector specific limitation regarding the type of SMEs or LEs to be financed. Sectors such as alcohol production, tobacco production, arms etc. will not be eligible for financing (negative list).

B. Borrower's Institutional Capacity for Safeguard Policies

UkrEximbank will be responsible for the implementation of the project and was selected based on its experience with exporters and with World Bank projects. UkrEximbank, Ukraine's official export financing institution with a lending portfolio of over UAH140billion, has extensive experience in the export sector, and in direct lending and on-lending through PFIs. UkrEximbank has had good performance as one of the Borrowers in the completed EDP1 of US\$70 million (P044851, Board approval in 1996), followed by EDP2 of US\$154.5 million (P095203, Board approval in 2006) and additional finance (AF, P109649, Board approval in 2011) of US\$150 million. UkrEximbank is also the Borrower under the ongoing Energy Efficiency Project (P096586). During the EDP series and the Energy Efficiency Project, UkrEximbank has dedicated staff for the implementation of the environmental management framework. Dedicated staff participated in Bank's safeguards trainings and improved their capacity on OPs. For this new loan, UkrEximbank is establishing a PIU which includes staff who were experienced in the safeguards implementation of the previous WB projects and other IFI projects.

The Project Implementation Unit (PIU) at UkrEximbank is staffed with qualified personnel, capable of satisfactorily implementing all aspects of the project, already performed under past World Bank projects. Its responsibilities will include: (i) selection of and on-lending to PFIs; (ii) monitoring of PFIs to ensure compliance with project criteria; (iii) coordination of UkrEximbank's direct lending; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; and (v) monitoring and evaluation based on key project development indicators.

It should be noted that in this new loan UkrEximbank will also be responsible for coordinating the PFIs for the



successful implementation of the ESMF and therefore may need more training related to safeguards concepts. Training arrangements will be discussed during project preparation and will be reflected in the PAD and Appraisal stage ISDS.

UkrEximbank will screen out sub-projects that could trigger OP 4.12. The Bank will conduct relevant training and capacity building for the FI to screen sub-projects and to monitor the PFIs to successfully screen sub-projects. The Bank will conduct prior review for an initial set of sub-projects by each PFI, including E&S screening.

C. Environmental and Social Safeguards Specialists on the Team

Alexei Slenzak

D. Policies that might apply

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Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The Environmental Category of the project is FI, since it'll be conducted via a Financial Intermediary Bank. Since it'll be an on-lending project to SMEs and LEs, the investments (sub-projects) will not be identified until project implementation. Environmental issues of the sub-projects will be addressed through the sub-loan environmental eligibility assessments. Environmental review process will be carried out in accordance with both Government of Ukraine's environmental legislation and World Bank OP 4.01 requirements.</p> <p>Due to the nature of the project, working capital or investment loan applications are expected. Working capital loans are generally targeted to purchase of raw material. Investment loans are expected to mainly focus on equipment purchase/replacement. To be on the safe side the Environmental and Social Management FW (ESMF) will also address small scale construction works and its review and assessment process although it is not expected that UkrEximbank will focus on construction involved sub-loan agreements. It is expected that there will be no large scale significant and/or irreversible impacts. Sub-projects in environmental Category A will not be eligible for funding.</p> <p>The environmental assessment (including environmental due diligence) procedures will be conducted according to the environmental and social review/management framework (ESMF) that will be</p>



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prepared by UkrEximbank and approved by WB. The ESMF will also include evaluation forms for assessing the environmental due-diligence of the existing facilities which will be applying for working capital or investment loans.

While on-lending the PFIs, UkrEximbank will include the ESMF as part of the sub-loan agreement and will be responsible for monitoring and ensuring the satisfactory performance of PFIs to comply with the ESMF.

None of the safeguards policies other than OP 4.01 is being triggered, with the understanding that: 1) any sub-projects that could trigger the other safeguards policies will not be eligible for financing, 2) the ESMF will include a checklist to ensure that sub-projects are screened according to this criteria, 3) the Bank will conduct relevant training and capacity building for the FI to screen sub-projects and to monitor the PFIs to successfully screen sub-projects, and 4) the Bank will conduct prior review for an initial set of sub-projects and from then after conduct supervision spot checks for a number of sub-projects.

Natural Habitats OP/BP 4.04

No

Most of the sub-loans will not involve construction works. For the cases where small scale construction works are involved, projects in natural habitats will not be eligible for financing.

Forests OP/BP 4.36

No

Pest Management OP 4.09

No

Physical Cultural Resources OP/BP 4.11

No

Indigenous Peoples OP/BP 4.10

No

Involuntary Resettlement OP/BP 4.12

No

Any sub-project that involves involuntary land acquisition that will trigger OP 4.12 will not be eligible for financing. The ESMF will include a checklist to ensure that sub-projects are screened according to this criteria. The Bank will conduct relevant training and capacity building for the FI (UkrEximbank) to screen sub-projects. The Bank will monitor the PFIs to successfully screen sub-projects, and the Bank will conduct prior review for an initial set of sub-projects and from then after conduct supervision spot checks for a number of sub-projects. UkrEximbank should not fund projects that have also recently acquired



land involuntarily in anticipation of use for the project to be funded by UkrEximbank.

Safety of Dams OP/BP 4.37	No
Projects on International Waterways OP/BP 7.50	No
Projects in Disputed Areas OP/BP 7.60	No

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 14, 2016

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

UkrEximbank will prepare an Operations Manual that will include the environmental review procedures and implementation arrangements under this project - the ESMF. The Environmental and Social Review section will be shared with the WB and, after consent, the plan will be translated to Ukrainian and will be disclosed in UkrEximbank's web site. The Environmental and Social Review will also be included in the subsidiary loan agreements between UkrEximbank and selected PFIs (standard E&S legal covenants). The World Bank will provide training to UkrEximbank and PFI staff to ensure that they understand the requirements and screening of the WB OPs, and continuous support and guidance will be provided as necessary.

CONTACT POINT

World Bank

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Implementing Agencies

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APPROVAL

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