World Bank Group – Ukraine Partnership:

Country Program Snapshot

April 2015

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth and External Performance

Ukraine faced a deepening economic recession in 2014. Confronted with large accumulated fiscal and external imbalances, the authorities embarked on a major macroeconomic adjustment in the first few months of the year. A sharp currency devaluation—after the fixed exchange rate was abandoned in March—combined with fiscal consolidation triggered a significant decline in consumption and investment. The contractionary impact of the adjustment was compounded by the escalating military conflict in the second half of the year, which led to severe economic disruption in the industrialized east and undermined investor and consumer confidence. After declining by 3.9 percent in the first three quarters of 2014, real GDP fell by 14.8 percent year-on-year in the fourth quarter, bringing the full year decline to around 6.8 percent. All sectors were affected: industry (-10.1 percent year-on-year), wholesale trade (-15.0 percent), and construction (-21.7 percent). This decline was moderated by a growth in agriculture of 2.8 percent year-on-year. Meanwhile, the sharp devaluation and an increase in gas and utility tariffs led to inflationary pressures, with the consumer price index (CPI) reaching 24.9 percent year-on-year in December 2014.

Despite fiscal consolidation efforts, public debt is rising rapidly. Revenues declined in 2014 due to economic contraction and problems in collecting taxes in the east, while security-related spending has grown. To contain the budget deficit, the Government adopted fiscal measures in March and July 2014 to boost revenues while curtailing expenditures. This helped contain the general government deficit to 4.6 percent of GDP (vs 4.8 percent in 2013). However, significant below-the-line financing was needed to finance a rising Naftogaz deficit (5.5 percent of GDP) and to also boost confidence in the banking system by recapitalizing the Deposit Guarantee Fund (DGF) and the state-owned banks (1.9 percent of GDP). This, together with the impact of the devaluation, resulted in a sharp increase in the ratio of public and guaranteed debt to GDP to 70.6 percent (vs. 40.6 percent in 2013).

Balance of payment problems remained acute in 2014, compounded by capital flight, low foreign direct investment (FDI), and delays in official financing. Following the devaluation in March 2014, the current account deficit started to adjust and reached almost zero in August. However, during the remainder of the year, the impact of the devaluation was dampened by conflict-related disruptions in export-oriented industries in the east and a seasonal increase in imports of gas and coal (after local coal production was damaged in the conflict areas). As a result, the current account deficit remained high at 4.1 percent of GDP in 2014. The financial account also came under pressure, due to repayments of arrears on gas payments to Gazprom, increased demand in the cash foreign exchange market after deposit outflows from the banking system, and delays in official financing. As a result, the hryvnia (the local currency) continued to weaken and lost over 25 percent of its value between September 2014 and the end of the year. Foreign reserves declined to US$7.5 billion (1.4 months of import cover) at the end of 2014 and dropped further to US$5.6 billion at end-February 2015. Having lost a notable portion of reserves, the National Bank of Ukraine (NBU) stopped currency interventions in early 2015, which led to another wave of pressure on the local currency.

The unstable political situation and prolonged crisis in Eastern Ukraine continue to create unfavorable conditions for Ukraine's economy, which is facing unprecedented challenges and risks. The best way to deal with them is to continue macroeconomic adjustments and structural reforms. Priorities will need to be given to restoring macroeconomic stability, strengthening the banking sector, reforming the energy sector, seriously tackling corruption and improving accountability, enhancing the investment climate, and better targeting social assistance toward the poor and the vulnerable.

Financial and Private Sector Development

The financial sector in Ukraine has been hard hit by a combination of political, security, and exchange-rate pressures since the beginning of 2014. The banking system, which represents more than 95 percent of financial assets, has structural weaknesses—high rates of related-party lending, the short open currency position of many banks, the high ratio of nonperforming loans (NPLs) to total bank assets—that increase its exposure to shocks and are the result of regulatory forbearance and poor governance in the system. These structural problems have been exacerbated by the unfolding crisis in the country. Banks have witnessed an aggregate deposit outflow of nearly 20 percent since the beginning of 2014, and they have been further weakened by the continuing depreciation of the Hryvnia, which has lost more than 50 percent of its value since that time. Depreciation is putting an immediate strain on banks' capital adequacy ratio through losses generated from the open short foreign exchange position, and in the longer run, through the deteriorating quality of the loan portfolio. Fourteen banks have been declared insolvent since the beginning of 2014, and the risk is very high that a large number of additional banks will follow, shifting the burden to the DGF, which may be required to make very large depositor payouts and resolve multiple banks quickly.

In this context, the World Bank Group is responding quickly to reduce the impact of the crisis and restore growth. Together with the authorities, the Bank has identified the following critical goals: (i) stabilize the banking sector and make it more resilient to possible future shocks; (ii) facilitate deeper financial intermediation and flow of credit to the real sector on a sustainable basis; and (iii) promote deeper reforms in the business environment in order to reinvigorate private sector–led growth and investment.

On the first objective, the Bank, in close collaboration with the International Monetary Fund (IMF), is working with the NBU on a crisis preparedness and management framework, including external diagnostic assessments of the top 35 banks that are expected to be completed by end-September 2015 (surveys of the top 15 banks were completed at end-July 2014). The NBU will then require the banks to prepare and implement recapitalization and restructuring action plans, as necessary.

In the context of the World Bank and IMF programs, the authorities have adopted criteria for the use of state funds to support under-capitalized, systemically important banks where necessary. In addition, the World Bank continues to provide support to strengthen the bank resolution framework, with amendments enacted in July 2014 that include additional criteria for the timely identification of problem and insolvent banks. Moreover, a mechanism has been established for back-up funding to the DGF from the Government, and additional instruments have been provided to enable the lower-cost resolution of banks. Finally, the top 35 banks have been compelled by the NBU to report their ultimate beneficiary owners, a first step toward improving transparency and reducing related-party lending.

Under the second objective, the Bank supports the implementation of policy reforms in the areas of credit information; a regulatory and supervisory framework for insurance companies, capital markets, and credit unions; and financial consumer protection and financial literacy. The Bank also promotes access to longer-term affordable finance for exporting enterprises and small and medium-sized enterprises (SMEs).

Under the third objective, Ukraine has taken some steps to improve the enabling environment for private business growth and investment, but much remains to be done. Progress in the *Doing Business (DB)* indicators was marked in the previous year, particularly in dealing with construction permits, reducing steps to starting a business, and streamlining procedures for transferring property (improving Ukraine's *DB* ranking from 140 in 2013 to 112 in 2014), but these improvements represent only a small part of a larger picture. As shown by considerable feedback from domestic and foreign enterprises, the overall business environment in Ukraine is critically weakened by macroeconomic instability, burdensome and obsolete regulations and standards, weak rule of law and protection of property rights, a lack of competition in many sectors, and the shortage of affordable and long-term finance.

As new leadership has signed an Association Agreement with the European Union (EU) and expressed a commitment to attracting investment and improving the business environment, attention is focused not only on *DB* indicators but also on a broader program of reforms. The World Bank Group supports Ukraine's efforts to maximize the benefits of access to EU markets by improving food safety and phytosanitary standards, with significant progress seen already in the meat and dairy industries. The Bank is also working with the authorities to address the costs of getting utilities; to improve corporate disclosure, director liability, and shareholder empowerment; and to continue to reduce the time and number of payments involved in paying taxes. In addition, the World Bank has assisted the Government in streamlining business permits and licensing and in introducing risk-based inspection systems, and has promoted tougher anti-monopoly policies to improve competition. While further progress is needed in all these areas, the Bank recognizes the cross-cutting constraints posed by weak governance, an inadequate competition regime, weak rule of law and respect for property rights, and a highly inefficient court system captured by vested interests.

The Bank, in coordination with other development partners, advocates that the new authorities take an integrated approach to tackling these related problems.

The Bank has two parallel programmatic Development Policy Loan (DPL) series in Ukraine that support financial and private sector reform agendas, in addition to ongoing technical assistance programs. The first programmatic Financial Sector DPL of US$500 million, approved by the Board of Executive Directors on August 7, 2014, supports policy measures aimed at strengthening the DGF's legal, operational, and financial capacity, improving bank solvency, and overall, making the banking system more efficient and resilient to possible future shocks. It is planned that the second operation will support further reforms in these three broad areas, with the loan's delivery expected in the third quarter of FY15. The programmatic multi-sectoral Fiscal Adjustment and Institutional Reform DPL includes reforms to improve the business environment, as well as macroeconomic and other reforms, within the policy matrix. It disbursed US$750 million in May 2014, while the second operation is currently in preparation.


A woman buys bread in Dnipropetrovsk

Poverty and Social Protection

The *Social Assistance System Modernization project (SASMP)* and the DPL program have supported an active policy dialogue on targeting accuracy.

The SASMP pursued activities aimed at finalizing the introduction of the "one-stop-shop" business model for the administration of all types of social assistance benefits countrywide, supported by a new management information system. The efficiency of client intake has further improved. Application processing time per application was reduced from 4.5 to 1.4 hours in 2011 and to 1.2 hours today. Such efficiency improvements have also yielded a higher number of benefits processed per social officer per month: 498, up from 260, thus contributing to the Ministry of Social Policy's efforts to contain the growing administrative costs of social assistance programs.

Now fully completed, the SASMP-financed renovations in local welfare offices are allowing for the delivery of benefits and related services in better, more comfortable conditions.

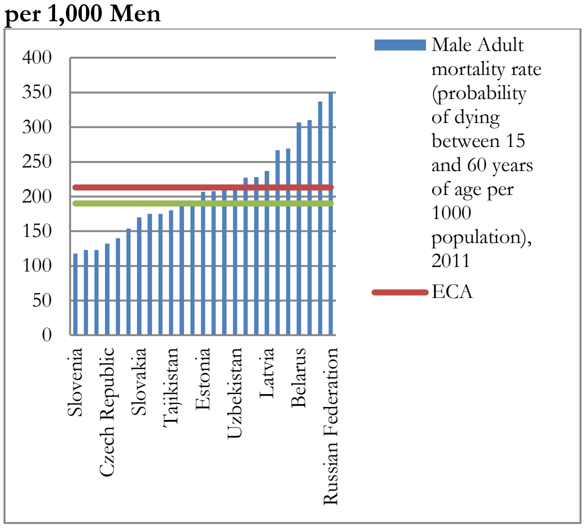

A mother applies for social benefits at the Korostyshiv welfare office, renovated with a Bank loan

The Bank has prepared a new project, the *Social Safety Nets Modernization Project*, to improve the performance of Ukraine's social assistance and social services system for low-income families. On July 3, 2014, the World Bank's Board of Executive Directors approved the new US$300 million project. Aware of the poor targeting accuracy and limited impact on poverty reduction, the Government has chosen to expand the coverage of the Guaranteed Minimum Income program and gradually enhance its design to further improve targeting, simplify administration, and help non-working, work-able beneficiaries transition from assistance to employment. Over 2014–19, the number of beneficiary families is expected to increase to 300,000 (1.1 million persons), expanding the program's coverage to about 2.5 percent of the population. By 2018, the Government intends to put in place activation services and incentives, with the objective of supporting the transition of work-able beneficiaries from benefits to employment.

Health Development

The health system in Ukraine has not yet been reformed. The health sector is one of the key areas of perceived underperformance, according to population surveys conducted in 2007 and 2010 (*Life in Transition Surveys*, jointly implemented by the European Bank for Reconstruction and Development [EBRD] and the World Bank). Between 1970 and 2010, Ukraine "gained" only one year of life expectancy and lost 92 positions in ranking with regard to adult male mortality (probability of dying between age 15 and 60). Today, crude adult death rates in Ukraine are higher than in its immediate neighbors, Moldova and Belarus, and for men are among the highest not only in Europe but also in the world.

Figure 1. Adult (15–60 years) Male Mortality Rates per 1,000 Men



Source: World Health Organization, World Health Statistics, 2013.

Noncommunicable diseases and injuries are the main culprits in the mortality crisis in Ukraine. As in all former socialist economies (FSE), the mortality gap in Ukraine vis-à-vis Western Europe is largely explained by noncommunicable diseases (first in order of importance is cardiovascular disease, which in 2013 was estimated to be responsible for approximately 66.5 percent of the total number of deaths) and second is cancer, responsible for 13.9 percent of the total number of deaths.

In 2013, government (central and local) health expenditure accounted for 12.2 percent of total consolidated budget expenditures, or approximately 4.2 percent of GDP, while the rest (over 3.26 percent of GDP) was mainly patients' out-of-pocket expenditures. Most government health financing comes from general taxation and is allocated according to inputs and mainly to cover recurrent costs (over 95 percent of total costs). As a result of the allocation criteria based on the number of beds and bed days, the health infrastructure is oversized, with over 300,000 beds and 2,400 hospitals (almost twice the number of Spain, a country with a similar population, and much above EU averages per population), yet extremely fragmented and unable to provide an adequate response to the current health crisis.

High levels of out-of-pocket medical costs create severe financial barriers for the poor and potentially catastrophic expenses for those who seek care and/or need to purchase medicines for chronic diseases. According to a recent household survey, in 2012, 22.6 percent of those who needed care were not able to receive it or buy medicines, primarily due to affordability. Out-of-pocket costs accounted for more than 42 percent of total health care spending and 3.26 percent of GDP, according to the Household Budget Survey conducted in 2012. Pharmaceuticals and other medical appliances are primarily financed by households (over 90 percent, or two–three times the figure in comparison to developed countries).

Together, the evidence shows that Ukraine is facing a health crisis and that its health sector is not delivering results, either in terms of health outcomes or financial protection. Therefore, the Government needs to take urgent, appropriate, and deep reform measures within its health system. The overarching goal of these reforms would be to create a health system that is responsive to clients, transparent, efficient and effective in its interventions, equitable, and prevention oriented.

The specific reform measures that would contribute to this overarching objective include:

- Scale up preventive and primary care services.
- Enhance coordination mechanisms among different levels of care.
- Change the input-based norms that currently drive the budgeting and allocation of resources at different levels toward better payment systems.
- Tackle the current substantial overcapacity in the hospital sector, with the creation of hospital networks and the establishment of a more rational distribution of services.

- Enhance data availability and utilization.
- Reduce the share of out-of-pocket payments.

Implementation of health sector reforms began cautiously in 2011 in three regions and in Kyiv but was temporarily interrupted after the winter 2014 political crisis. The new Government is committed to resuming the reform process, and a new Concept of Health Reforms was finalized in February 2015. The Bank has supported the first steps in the reform process through its advisory services, both at the central as well as regional (oblast) levels, in the areas of health financing, primary care, and hospital reforms, and in the establishment of a new strategy to develop a modern health management information system.

In March 2015, the Board of Executive Directors approved a new investment lending project in support of health care reforms, the *Serving People Improving Health Project,* for a total amount of $US214.73 million, which will accompany the reform process.

Education

Literacy remains high in Ukraine. However, demographic and economic realities require the school network to downsize so available—but limited—resources can be better used to improve the quality of education. Education expenditure is approximately 7 percent of GDP, and enrollment in primary and secondary schools is nearly universal. While there is a shortage of slots in childcare facilities, Ukraine has an oversized school network. The number of teachers and schools remains nearly the same, despite the severe (40 percent) decline in student population over the last two decades. Efficiency indicators, including average school size and the student-teacher ratio (nine on average, one of the lowest in the world), have been falling sharply.

In this environment, Ukraine's priority should be to make better use of the resources allocated to the sector by significantly downsizing the school network to fit the smaller (current and projected) cohorts of students. With a smaller network in place, the sector's resources could be reallocated to quality-enhancing inputs. Key required reforms encompass school network optimization, revision of input-based norms, higher autonomy and accountability of service providers, and participation in international assessments with feedback into policy design. For example, the Trends in International Mathematics and Science Study (TIMSS) assessment 2011, co-supported by the World Bank's *Equal Access to Quality Education* project, demonstrated an improvement in the performance of Ukraine's 8th-graders in both math and science. The students performed above average in science (501 points compared to 485 in 2007) and improved in math (479 compared to 462 in 2007).

After the closure of the *Equal Access to Quality Education* in 2010, the Bank maintained a policy dialogue with the Government on an optimization and efficiency agenda in line with the Program of Economic Reforms. Findings from the World Bank study, "Is Optimization an Opportunity? An Assessment of the Impact of Class Size and School Size on the Performance of Ukrainian Secondary Schools," showed that bigger secondary schools in Ukraine tend to show a somewhat better performance, both in terms of test scores and test participation, while the size of classes does not matter. Thus optimization of the secondary school network is unlikely to negatively affect the quality of education if access is properly ensured. In 2012–13, another type of assistance came from the *BOOST Public Expenditure Data Analysis* initiative, which supported an efficiency agenda by improving government information on public spending on education and increasing the Government's capacity to analyze that public spending.

Senior pupils check their test scores in Kharkiv

Labor Market

Ukraine faces particular job challenges given its aging demographic profile, ongoing structural transformation, and fundamental economic challenges. Ukraine is one of the fastest-aging and depopulating countries in Europe. If age and gender-specific labor force participation rates stay as they are today, the labor force in Ukraine is projected to shrink by over 15 percent between 2012 and 2035. A shrinking labor force and aging population pose a serious threat to the future development of the country. To compensate for the labor force decline and ensure improved living standards, it is necessary to steadily increase labor productivity (0.36 percent annually according to the case study on Ukraine in the World Bank's *World Development Report 2013: Jobs*). The Bank's analytical work supports the Government in addressing some of the challenges, such as low internal labor mobility, high informal employment, and a skills mismatch, with a view to contributing to increased labor productivity, advanced economic development, and improved living standards in the country.

Removing existing barriers to internal mobility is important to moving Ukraine forward, as growing international evidence suggests that internal labor mobility tends to have positive effects on a country's productivity and growth. Achieving economic growth and improving living standards requires connecting people to places where economic opportunity flourishes. Findings from the World Bank study, *"In Search of Opportunities: How a More Mobile Workforce Can Propel Ukraine's Prosperity"* (2012), show that Ukraine's economy lacks dynamism. Internal mobility is about half of what is expected when comparing Ukraine to other countries. With a population that is aging more rapidly than most, increasing labor mobility must happen sooner rather than later, since an older population is even less likely to migrate to find work.

The main barriers to internal mobility in Ukraine are institutional. Administrative procedures, benefits tied to residence, underdeveloped housing and credit markets, inadequate human capital, and weak formal labor market institutions all work to discourage and hinder labor mobility in Ukraine. For example, weak labor market institutions reduce dynamism in the labor market, stimulate informal work arrangements, and do not provide workers with enough reliable information about job openings and labor market conditions outside their current place of residence. In addition, people in lagging regions often lack the necessary skills to access better economic opportunities in high-productivity, modern sectors in the leading regions. Addressing institutional bottlenecks that affect internal mobility will contribute to Ukraine's development and transition to a modern dynamic economy.

Informal employment in Ukraine is significant. In 2012, 4.6 million people in Ukraine worked in the informal sector, equivalent to 22.9 percent of total employment. Reducing informality is important for Ukraine's development in terms of social cohesion, the protection of workers, labor and product market efficiency, increased productivity, rule of law, and governance. The four technical notes prepared by the Bank at the request of the Government provide an overview of the scope and main characteristics of informal employment in Ukraine and offer international experience in addressing this issue. They also point to international experience with reforms of the labor code and labor inspection services, which are integral parts of a comprehensive policy to reduce informality.

Education and training are recognized as central to economic development. Skills are at the core of improving employment outcomes and increasing productivity and growth. Education and training systems, however, may not always provide the skills needed to succeed in the labor market. For example, 20 percent of Ukrainian firms regard workers' lack of skills as a major obstacle to their firms' operation and growth. While firms in the country face a shortage of skilled workers, many university graduates cannot find employment or end up in jobs that do not use their skills. The Bank's framework *Skills Toward Employment and Productivity (STEP)* and initiative on *System Assessment and Benchmarking for Education Results (SABER)* aim to get better information about the distribution of various skills in the workforce, as well as the demands for those skills from different economic sectors, to support the design of skills-development policies and improve employability and productivity.

Agriculture Development

Ukraine has tremendous agricultural potential that has a critical role to play in contributing to global food security. In 2012, agriculture contributed up to 9.3 percent to the country's GDP and constituted 17.2 percent of employment and 26 percent of national exports. However, this potential has not been fully exploited, due to depressed farm incomes and an inadequate policy framework that have reduced private investment to below the levels required to modernize the sector.

Agricultural Works in Poltava Region

The Bank is currently engaged in analytical work on grain transport and logistics. Its objective is to develop a measurable Action Plan for the Government of Ukraine to address both physical and regulatory bottlenecks that increase the cost and time required to transport and trade grains.

The Bank is also engaged in providing technical assistance to sector institutions in shaping options for the country's irrigation sector, as well as in undertaking analytical work in agricultural trade, transport, and logistics, with a specific focus on streamlining grain supply chains and logistics. Based on a review of land governance in the country, Ukraine also received, through a competitive process, a grant in the amount of US$500,260 from the Institutional Development Fund (IDF) for Capacity Development for Evidence-Based Land and Agricultural Policy Making in Ukraine. This is an important instrument for ensuring informed decision making in the sector.

The International Finance Corporation (IFC), through its Investment Climate Team, is providing support on agribusiness-specific regulations through a dedicated activity aimed at improving the industry-specific investment climate. Special focus areas include streamlining regulations for: i) post-harvest handling and storage investments; ii) modern food safety principles, and iii) registration of agricultural inputs, each contributing to a reduction in compliance costs, accelerated structural change, and improved access to modern technology for agriculture and agribusiness.

Transport

In addition to its weight in GDP (more than 11 percent), transport is a key actor of the Ukrainian economy, which heavily relies on the sector for the movement of goods and people. As a result, efficiency improvements in the transport sector are particularly critical to raising competitiveness. The country generates far more transport movements and volumes relative to its GDP than any other country in Europe, due to its reliance on agriculture and heavy industry. This implies that transport costs make up a much larger part of the final price of many goods. Consequently, the transport system has a substantial potential to improve aggregate productivity and regional competitiveness.

Less than 10 percent of freight traffic (in ton kilometers) is by road, while rail and pipelines account almost equally for most freight volume. However, this situation is changing quickly, and due to steadily increasing commercial and passenger traffic, some strategic sections of the road network are already functioning at peak capacities. Yet, substantial portions of the network need upgrading to European technical and safety standards. Moreover, due to continuous underfunding of the sector, the road network has progressively deteriorated to a point where 40–50 percent of all state roads do not meet adequate standards. Similarly, less than half the roads and overpasses in the country are in an acceptable condition. Unfortunately, in the current context, the funding of the sector is not expected to improve soon. In 2015, the budget allocation for road maintenance and development was UAH 2.7 billion, a value estimated to be two times less than the minimum required for maintenance alone. Road safety is yet another of the sector's issues, as Ukraine has one of Europe's poorest track records with regard to injuries and deaths resulting from car crashes.

The World Bank is Ukraine's key partner in the transport sector. A first operation recently concluded in 2014, the *Roads and Safety Improvement Project* (US $400 million) has financed (i) an upgrade of a 126-kilometer section of the Kyiv-Kharkiv road; (ii) the elimination of the "accident black spots" on the road network and the improvement of dangerous corridors; and (iii) technical assistance to strengthen the road agency's capacity in road management and maintenance.

In 2012, the project was extended to an additional US$450 million operation, the second *Roads and Safety Improvement Project*, with the aim of continuing to upgrade the follow-up road sections toward Poltava on the same itinerary and to improve the road safety of selected high-risk corridors. This operation is an opportunity to deepen the policy dialogue with the Government in order to assist the country in improving the efficiency of the road sector.

Energy

Restructuring and upgrading the energy sector continue to be key development challenges for the Government of Ukraine. Ukraine is among the world's top-10 most energy-intensive economies. While the country's energy intensity declined at a rate of 5 percent per year between 1996 and 2009, it still exceeds that of Germany by a factor of 3.7—for instance, 0.45 kilograms (kg) of oil equivalent in Ukraine vs 0.12 kg in Germany—and is three times higher than the EU average. It is also about double that of the EU12 countries.

The sector faces serious challenges in maintaining the security, reliability, and quality of supply, due to delays in energy sector reform, the poor financial condition of energy sector enterprises, a lack of investments, and deferred maintenance to aging infrastructure. These problems threaten the sustainability of economic growth, degrade the environment, and increase the cost of social services. Therefore, improvements in this sector are clearly among Ukraine's top strategic priorities. Ukraine became a member of the Energy Community Treaty in 2010 and has committed to meeting the treaty's requirements.

Since the early 1990s, the Bank has supported Ukraine in its efforts to reform and restructure its energy sector through policy dialogue, technical assistance, and the financing of adjustment and investment projects. Energy infrastructure investments under the *Hydropower Rehabilitation Project* helped increase reliability and reduce the cost of hydropower generation. The project helps increase the installed capacity of the Dnipro and Dniester Hydropower Cascades by about 250 megawatts and its production by about 300 gigawatt hours, which is equivalent to building a major new hydropower plant. During the past five years of project implementation, the rehabilitation of 59 hydropower units in six hydroelectric plants was completed and the installed capacity of rehabilitated hydroelectric plants increased by about 156 megawatts by August 2014. The project also pioneered the concept of carbon financing in Ukraine, as it was the first *Joint Implementation Project* under the Kyoto Protocol in the country.

Upgraded hydropower units at the Dniester hydropower plant

In implementing the *Power Transmission Project*, the Bank has also worked with the state-owned company UkrEnergo to expand the capacity of its power transmission grid and reduce losses. Under this project, UkrEnergo will rehabilitate seven substations in various regions of the country. The rehabilitation will help reduce energy losses by about 33 gigawatt hours per year. The projects in the electricity sector are designed to improve the quality of supply to enable Ukraine to meet Western European standards (ENTSO-E). Improvements to the transmission backbone will facilitate an increased electricity trade, including with the EU. In October 2014, the Bank's Board of Directors approved the Power Transmission Project (US$330 million, plus US$48 million from the Clean Technology Fund), which is designed to improve the reliability of the power transmission system and support the implementation of the Wholesale Market in Ukraine. Implementation of the project is starting in 2015.

In addition to being energy intensive, Ukraine is one of the most energy-inefficient countries in the region. This is due to a number of reasons: the high concentration of energy-intensive sectors, inefficient industrial processes and old equipment, inefficient district heating systems, and poor quality building stock. Ukraine's ratio of total primary energy supply (TPES) to GDP is 10 times higher than the Organisation for Economic Co-operation and Development (OECD) average. Calculated in purchasing power parity (PPP) terms, Ukraine uses around 3.2 times more energy per unit of GDP than the average among OECD countries. To address this challenge in a sustainable way, the Bank provides financial support through a credit line (the *Energy Efficiency Project*, US$200 million, approved by the Board in May 2011). The project provides access to long-term financing to municipalities and industrial enterprises specifically for projects that propose commercially viable energy-efficiency investments.

In addition, the World Bank has launched the US$382 million *District Heating Energy Efficiency* investment project to help reduce losses and increase the efficiency of 12 district heating companies across Ukraine. This new project focuses on the rehabilitation of boiler houses, replacing network pipes and installing individual heat substations and building-level heat meters, with the overall aim of increasing the efficiency of these district heating companies. In doing so, it will help in reducing costs, enhancing the reliability of service, and improving the overall quality of the heat supplied to over 3 million Ukrainians. A highly-concessional investment of US$50 million from the Clean Technology Fund will also have a transformational impact on the district heating sector of Ukraine by facilitating a large-scale installation of Individual Heat Substations.

The World Bank is also working with the Government, the European Commission (EC), and other international financial institutions (IFIs) to provide technical assistance in restructuring the gas sector, with the objective of facilitating commercial and IFI investments in the modernization of Ukraine's gas transit system and improving sector governance.

Water and Sanitation Services

The municipal services sector in Ukraine suffers from decades of underinvestment and poor maintenance. The need to invest in water and wastewater utilities is growing dramatically, and the existing low tariff levels are a major limitation to the sustainability of these utilities. The need for rehabilitation is exacerbated by the overall high energy consumption in water production and wastewater treatment. It is estimated that energy intensity in Ukraine is one of the highest in the region. Improving service delivery through the rehabilitation of infrastructure and the promotion of energy-efficiency solutions offers the possibility of driving utilities toward financial sustainability while providing improved services.

The Bank has been providing significant support through the *Urban Infrastructure Project* (US$140 million). It assists 14 municipal water and sanitation utilities in improving the quality of water and wastewater services and increasing energy efficiency. This is achieved through selected infrastructure investments, energy-efficiency investments, and institutional strengthening activities. A parallel grant, financed by the Swedish International Development Cooperation Agency (SIDA), contributed to institutional capacity building for water and sanitation utilities and supported municipal sector policy work.

The new US$350 million *Urban Infrastructure Project 2* was approved in 2014 to continue providing investment financing to the sector as well as technical assistance for building the capacity of 10 participating water institutions. This will result in better access to water, wastewater, and solid waste services to over 6 million citizens. The project includes US$50 million from the Clean Technology Fund.

The Boryspil water and sanitation utility upgraded its equipment with a Bank loan.

Recovery and Peacebuilding Assessment

In response to the crises and following the request of the Government of Ukraine, the *Eastern Ukraine Recovery and Peacebuilding Assessment (RPA)* was carried out in late 2014. The RPA focuses on the areas under the Ukrainian Government's control in Donetsk and Luhansk oblasts, as well as the three adjoining oblasts: Zaporizhzhia, Dnipropetrovsk, and Kharkiv. The RPA covers immediate recovery, rehabilitation, and social cohesion needs and is designed to be flexible so that its scope and recommendations can be updated as circumstances change. Specifically, the RPA provides recommendations in three areas: restoring critical infrastructure and services; improving access to economic livelihoods; and strengthening social resilience and initiating reconciliation and peacebuilding. The recommendations identify activities that need to begin in 2015–16. The initial work on the RPA was supported by the World Bank Group, the EU, and the United Nations between November 2014 and February 2015, under the leadership and with the participation of the Government of Ukraine.

Conflict Filter

As country is facing a conflict situation in the east, the World Bank has introduced a Conflict Filter into its Ukraine program to ensure that its projects and other activities do not aggravate existing conflict risks. The Conflict Filter is being designed to respond to the needs of the country and to be in line with lessons learned elsewhere. As such, the filter will not take the form of a formal instrument but rather be a guide that can support teams as they design and implement Bank-supported activities. It will be mainstreamed within the existing Governance and Anti-Corruption (GAC) Filter, which will be enhanced to include attention to specific conflict issues. Currently, the GAC filter is applied to operations and analytical work and examines local and central institutions, stakeholders, and political economy aspects that influence reform options in specific sectors. The filter is being broadened by introducing a conflict dimension (conflict subfilter), which would follow a flexible approach that allows application to projects with the potential or need for enhanced attention to conflict sensitivity and a basic screening for other projects. Based on this screening, the conflict-support team would provide tailored support to the task teams. This model has proven highly effective and resource-efficient in the Kyrgyz Republic, South Sudan, and Burundi.

THE WORLD BANK PROGRAM IN UKRAINE

The World Bank's Country Partnership Strategy (CPS) for Ukraine for 2012–16 was endorsed by the World Bank's Board of Directors in February 2012.

The World Bank's assistance is concentrated in two areas:

- **Improving public services and public finances:** The Bank's efforts in this area are targeted at achieving improvements in: (i) responsible and sustainable fiscal management; (ii) the efficiency of service delivery in health and education and better targeted social assistance spending; and (iii) the provision of municipal services (water, sanitation, heating). The World Bank Group finances investments in public sector infrastructure and works on setting up improved monitoring mechanisms and strengthening the governance of public service providers, while supporting intensified dialogue between the Government and civil society in key policy areas, such as health care reform, water supply, district heating, and public procurement.
- **Improving the business climate to unlock Ukraine's economic potential:** The CPS focuses on (i) improving the business environment for both domestic and foreign investors; (ii) improving the physical infrastructure to reduce the cost of doing business; and (iii) creating an appropriate policy framework to attract private investment in agriculture to allow Ukraine to benefit from the high international demand for food and agricultural commodities.

Improvement in the implementation of the existing portfolio is critical to achieving strategic outcomes. The current investment lending portfolio includes 15 operations for a total amount of about US$4.6 billion.

Responding to the crisis in Ukraine, in March 2014 the World Bank Group announced that it would provide up to US$3.5 billion to Ukraine by the end of 2014. This lending supported the Government in undertaking the critical reforms needed to put the economy on a path to sustainability. In FY14, the Bank delivered a total of US$2.9 billion. In February 2015, the World Bank announced another US$2 billion of new lending for Ukraine in 2015.

Since Ukraine joined the World Bank in 1992, Bank commitments to the country have totaled over US$9 billion for 45 projects and programs.

International Finance Corporation

As laid out in the new Ukraine CPS for FY12–16, IFC strategy in Ukraine continues to support: (i) banking sector stabilization and targeted finance, (ii) agribusiness, and (iii) infrastructure, accompanied by two cross-cutting themes of improving the business environment and promoting energy efficiency.

Financial sector stabilization will entail an expansion of the Global Trade Finance Program to facilitate trade and possible capital and liquidity support for selected banks. The investment and advisory work on distressed assets and NPLs will continue. In the longer term, IFC will provide targeted financing through banks for SMEs, energy efficiency, and the agribusiness sector.

The World Bank Group Office in Kyiv

Agribusiness development, which constitutes the core part of IFC's strategy in Ukraine, is supported throughout the supply chain to address the main bottlenecks to the sector's growth and to generate broad sectoral impact. In its agribusiness investments, IFC emphasizes projects with individual companies to maximize impact through a demonstration effect. Investments in agribusiness are accompanied by advisory work to improve the investment climate for agribusiness, bring food safety standards to international levels, and develop agri-finance and agri-insurance. IFC's investment climate advisory also supports implementation of the recently enacted permits and licenses legislation, the adoption of legislation on certification and standardization, and institutional reform in the area of technical regulations.

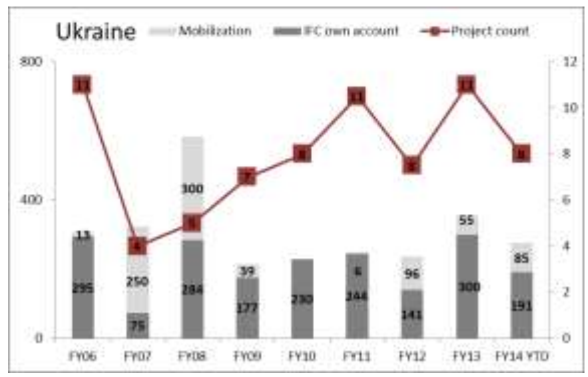
In the infrastructure sector, IFC is considering renewable energy projects and exploring opportunities in waste, transport, and IT services, as well as trying to promote transaction advisory work to support structuring public-private partnership (PPP) transactions and developing proper transparent mechanisms for attracting private sector financing.

IFC is aiming to improve Ukraine's energy efficiency in a cross-cutting investment effort, complemented by advisory services on Resource Efficiency, Residential Energy Efficiency, and Sustainable Energy Finance.

The IFC portfolio in Ukraine: As of the end of December 2014, IFC had a committed portfolio of about US$1.5 billion in Ukraine, including $894 million on IFC's own account and $582 million in mobilization. In FY14, IFC committed US$311 million in Ukraine for its own account and mobilized another US$160 million.

In addition, IFC has a large, long-standing advisory presence in Ukraine, targeting both crisis response needs and longer-term objectives. IFC advisory services in Ukraine focus on the following priority areas: investment climate, agribusiness, and energy efficiency.

Figure 2. IFC Portfolio in Ukraine



Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) contributes to the development of the financial sector in Ukraine by continuing to support foreign strategic investors through the provision of political risk guarantees. In particular, MIGA focuses on investments that: i) improve SMEs' access to finance, ii) increase the provision of specialized banking products, including lease financing, and iii) strengthen banks' capitalization. Also, MIGA supports projects in manufacturing that promote the modernization of production and contribute to the diversification of the economy. MIGA's current portfolio includes US$592 million in guarantees.

As the country's long-term development partner, the World Bank Group has been implementing an ongoing investment and guarantee program of over US$6 billion, supporting improved basic public service delivery in areas such as water supply, sanitation, power, and roads, and also supporting the private sector.

UKRAINE
SELECTED CITIES AND TOWNS
OBLAST CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
OBLAST BOUNDARIES
INTERNATIONAL BOUNDARIES
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BELARUS
RUSSIAN FEDERATION
POLAND
SLOVAK REPUBLIC
HUNGARY
ROMANIA
MOLDOVA
BULGARIA
Black Sea
Sea of Azov
VOLYN
RIVNE
ZHYTOMYR
CHERNIHIV
SUMY
KYIV
POLTAVA
KHARKIV
LUHANSK
LVIV
TERNOPIL
KHMELNYTSKYI
IVANO-FRANKIVSK
ZAKARPAT
CHERNIVTSI
VINNYTSYA
CHERKASY
KIROVOHRAD
DNIPROPETROVSK
DONETSK
MYKOLAIV
ODESSA
ZAPORIZHZHIA
KHERSON
CRIMEA
KYIV (KIEV)
Kovel
Sarny
Korosten
Luts'k
Rivne
L'viv
Ternopil'
Ivano-Frankivs'k
Uzhhorod
Chernivtsi
Hora Hoverla (2061)
Khmel'nyts'kyi
Zhytomyr
Vinnytsya
Uman'
Chernihiv
Sumy
Kharkiv
Poltava
Cherkasy
Kremenchuk
Kirovohrad
Kryvyi Rih
Dnipropetrovs'k
Zaporizhzhia
Nykopol
Severodonetsk
Luhans'k
Donets'k
Mariupol
Berdiansk
Melitopol
Mykolayiv
Kherson
Odessa
Izmail
Vilkova
Yevpatoriia
Simferopol'
Sevastopol
Yalta
Feodosiia
Kerch
Kyiv Reservoir
Kremenchug Reservoir
Kakhov Reservoir
Dnieper Upland
Dnieper Lowland
Donets Basin
Carpathian Mts.
Mouths of the Danube
Dnieper
Desna
Donets
North Buh
South Buh
Dniester
Inhulets
To Warsaw
To Minsk
To Zhlobin
To Bryansk
To Orel
To Voronezh
To Tarnow
To Satu Mare
To Tirgu Mures
To Brlad
To Bacau
To Buzau
To Medgidia
To Armavir
To Sochi
25°E
30°E
35°E
50°N
45°N
0 50 100 150 Kilometers
0 50 100 150 Miles
IBRD 33505

UKRAINE: URBAN INFRASTRUCTURE PROJECT

Key Dates:
Approved: August 28, 2007
Effective: November 10, 2008
Closing: June 30, 2015
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD	140.00	134.19	6
Total Project Cost	**140.00**		

***Source: World Bank BW data as of April 6, 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project Development Objective is to improve the quality of water and wastewater services and increase the energy efficiency of select water and sanitation utilities.

The Project addresses (i) institutional strengthening for utilities toward improved operational efficiency; (ii) rehabilitation investment needs in water and wastewater in Odessa, Ivano-Frankivsk, and Chernihiv; and (iii) the need to finance urgent energy-efficiency investments in 14 water and sanitation utilities.

Results achieved:

The project started implementation slowly, due to the low readiness of investment projects for financing, a reflection of the low capacity in many municipalities and utilities. However, more recently, the project has made steady implementation progress, meeting the expected objectives.

- Energy-efficiency investment subprojects were completed in 12 participating cities—Kolomyia, Nova Kakhovka, Drogobych, Cherkasy, Kharkiv, Chernihiv, Kamyanets-Podilskiy, Ivano-Frankivsk, Novograd-Volynskyi, Odessa, Kalush and Kremenchuk and in each city, the achieved results far exceeded the target of having at least 15 percent energy savings.
- Specifically, energy efficiency improved by 35 percent in Kolomyia, 30 percent in Cherkasy, 25 percent in Drogobych, 21 percent in Kamyanets-Podilskiy, and 20 percent in Nova Kakhovka.
- As an example, in Kolomyia, a new water pumping station was opened, resulting in fewer breakdowns in the water supply system. The water utility company, which is owned by the city council, estimates annual savings of about 1 million kilowatt hours of electricity.
- Business plans have been developed by three participating utilities to improve their strategic planning and enhance their decision-making practices, and ultimately they are expected to have a positive impact on the utilities' financial situation.
- In total, the project is expected to reach 4 million people, who will have better access to clean, safe, and reliable water.

Key Partners: (i) the Ministry for Regional Development, Construction, Housing and Communal Services is responsible for the overall policy setting as well as for project implementation; (ii) the municipal authorities of Odessa, Ivano-Frankivsk, and Chernihiv, which have regional Project Management Units; and (iii) 11 other municipal utilities in participating cities.

Key Development Partner is the Swedish International Development Cooperation Agency (SIDA), which has provided SKr 35,844,217 (an equivalent of about US$5.5 million) in support of institutional strengthening and energy efficiency under the Urban Infrastructure Project.

UKRAINE: SECOND URBAN INFRASTRUCTURE PROJECT

Key Dates:
Approved: May 22, 2014
Effective: November 21, 2014
Closing: October 31, 2020
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD	300.00	0.75	299.25
CTF	50.00		
Total Project Cost	**350.00**		

***Source: World Bank BW data as of April 6, 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project Development Objective is to improve the quality and efficiency of water, wastewater, and solid waste services in selected cities in Ukraine.
The Project addresses some of the challenges the water and sanitation sector face through: (i) advancing institutional reform; (ii) supporting sustainable improvements in service; and (iii) promoting recycling, reducing solid waste, and supporting reduction of environmental hazards in 10 participating water and sanitation utilities.

Results expected:
The new Urban Infrastructure Project-2 was approved to continue providing investment financing to the sector as well as technical assistance for building the capacity of water institutions. This will be achieved through three components:

- Component 1, urban infrastructure investments (US$ 335 million), will support the rehabilitation and reconstruction of water supply, sanitation, and solid waste infrastructure in 10 cities (Kyiv, Kharkiv, Donetsk, Zhytomyr, Kirovohrad, Ternopil, Kolomyia, Ivano-Frankivsk, Cherkasy, and Kramatorsk);
- Component 2 (US$10 million) will support improvements in sustainable service delivery through institutional strengthening and capacity building; and
- Component 3 (US$5 million), will support project management and implementation. The project will also support the transition toward more efficient and financially sustainable utilities.
- In total, the project is expected to result in better access to water, wastewater, and solid waste services to over 6 million citizens across Ukraine.

Key Partners: (i) the Ministry for Regional Development, Construction, Housing and Communal Services is responsible for the overall policy setting as well as for project implementation; (ii) the water utility companies, or vodokanals, in Kyiv, Ivano-Frankivsk, Kharkiv, Kolomyia, Donetsk, Kramatorsk, Kirovohrad, Zhytomyr, Cherkasy, and Ternopil have regional Project Management Units; and (iii) Kharkiv Municipal company for Waste Management.
Key Development Partners: the Clean Technology Fund (CTF), which has provided US$50 million in support of institutional strengthening and energy efficiency under the project. An additional US$7 million grant from SIDA, will cofinance institutional strengthening and capacity-building activities.

UKRAINE: DISTRICT HEATING ENERGY EFFICIENCY PROJECT

Key Dates:
Approved: May 22, 2014
Effective: November 24, 2014
Closing: October 30, 2020
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD	332.00	0.83	331.17
CTF	50.00		
Total Project Cost	**382.00**		

***Source:** **World Bank BW data as April 6, 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project Development Objective is to improve the energy efficiency and quality of service of selected Ukrainian district heating companies, improve their financial viability, and decrease their CO_2 emissions.
The Project addresses some of the challenges in one of the most energy-intensive economies in the world through (i) improving the efficiency of 10 participating district heating companies; (ii) introducing individual heat substations on a large scale, which is expected to have a transformational impact on the country's district heating sector; and (ii) providing capacity building.

Results expected:
This new project focuses on improving the quality of services and the efficiency of 10 Ukrainian district heating utilities that cover about 30 percent of the Ukrainian heat market. The overall aim of the project is to improve the quality and reliability of services of participating utilities, increase their efficiency, decrease the costs of their services in the medium term and improve their environmental footprint. This will be achieved through:

- Energy-efficiency investments that will include the rehabilitation of boiler houses, the replacement of network pipes, and the installation of mini-combined heat and power stations (CHPs), individual heat substations, and building-level heat meters;
- Technical assistance and capacity building for participating district heating utilities and for the Ministry for Regional Development, Construction, Housing and Communal Services, which oversees project implementation. This will involve guidance and training in project implementation; capacity building and knowledge-sharing workshops for the participating companies; and sector-wide knowledge sharing and project results dissemination workshops as well as surveys among the participating companies' customers.
- The expected outcomes from the activities are projected lifetime fuel savings of 560 gigawatt hours (GWh) per year in 10 municipalities in Ukraine and an annual reduction in CO_2 emissions of 330,000 metric tons.
- In total, the project is expected to help in reducing costs, enhancing reliability of service, and improving the overall quality of the heat supplied to over 3 million Ukrainians.

Key Partners: (i) the Ministry for Regional Development, Construction, Housing and Communal Services is responsible for the overall policy setting as well as for project implementation; and (ii) the municipal authorities in 10 participating cities: Chernihiv, Dnipropetrovsk, Donetsk, Ivano-Frankivsk, Kamyanets-Podilskyi, Kharkiv, Kherson, Kirovohrad, Mykolaiv, and Vinnytsia.
Key Development Partner is the Clean Technology Fund (CTF), which has provided a highly concessional investment of US$50 million to facilitate a large-scale installation of individual heat substations.

UKRAINE: POWER TRANSMISSION PROJECT

Key Dates:
Approved: August 2, 2007
Effective: December 5, 2008
Closing: December 31, 2015
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD Loan	200.0	158	42
Borrower	38.0		
Total Project Cost	**238.0**		

***Source: World Bank BW data as of April 6, 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project Development Objective is to improve the security, reliability, efficiency, and quality of the power supply through the rehabilitation of transmission substations and the strengthening of the power transmission network. The project targets improved services to consumers through a reduction in transmission losses and improved voltage quality in transmission substations. The project also aims to improve the institutional capacity and technical capabilities of the transmission system operator, UkrEnergo (UE), so that it can ensure the secure and reliable operation of the high-voltage power grid and therefore provide an improved quality of services to consumers.

The Project addresses a range of interconnected sector issues by (i) the rehabilitation of transmission substations, which includes the replacement of outdated high-voltage equipment and the installation of modern protective relaying and substation automation systems; (ii) the strengthening of the transmission network, which includes expansion of the existing 330-kilovolt Bar substation and construction of the 72.9 km-long, 330-kilovolt transmission line; (iii) the stabilization of the Crimea Electric Power Grid; (iv) institutional development for UE, which includes the establishment of a corporate-wide management information system (MIS) in UE; and (v) the implementation of the Grid Code.

Results achieved:

- The project had a slow start, but by mid-2012 all tender packages were finalized and contracts signed. Two major contracts for the reconstruction of Bar substation and construction of the 72.9 km-long Dniester-Bar transmission line have been completed.
- These completed upgrades will make the Ukrainian power grid more reliable and efficient, as they will help improve the company's services and significantly reduce power losses and outages in the transmission network.
- Moreover, the improvements at the Bar Substation will ensure more stable voltage in the grid through continuous power transmission, using the resources of the Dniester Hydropower Plant to full capacity, which will generate savings of about UAH 250 million (US$31.2 million) a year.

Key Partners: The Bank team worked closely with (a) the Ministry of Energy and Coal Industry, which was responsible for overall policy setting; (b) UkrEnergo (UE), the ultimate beneficiary of the loan and implementing agency of the project in the rehabilitation of the transmission system; (c) the National Energy Regulatory Commission (NERC), the independent power sector regulator charged with implementation of the new Wholesale Electricity Market Model; and (d) the Energy Program Coordination Unit (EPCU), responsible for implementation of the Energy Sector Reform and Development Program at the Ministry of Energy and Coal Industry.

Key Development Partners: included the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), which are also working with UE on transmission projects, and the European Commission (EC), with which the Bank team coordinated closely on policy issues.

UKRAINE: HYDROPOWER REHABILITATION PROJECT

Key Dates:
Approved: June 21, 2005
Effective: February 03, 2006
Closing: June 30, 2016
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD Loan	166.0	117	49
Borrower	274.5		
Total Project Cost	**440.5**		

***Source: World Bank BW data as of April 6, 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

From 2007 to 2013, Ukraine increased hydropower production from 5.2 to 7.1 percent in the total energy mix, producing 13.7 terawatt hours (out of 193.5 terawatt hours of total power produced), and in the first six months of 2014, production reached 5.5 terawatt hours, or 6.1 percent of the total energy mix. These investments enabled the power system to keep its supply costs low, as the rehabilitation of hydropower assets was a low-cost supply option.

The Project Development Objective is to improve the operational stability and reliability of the power supply by increasing the regulating capacity, efficiency, and safety of hydroelectric plants, and therefore, facilitate the unimpeded operation and opening up of the electricity market in Ukraine.

The Project addresses a range of interconnected sector issues by the (1) rehabilitation of hydroelectric plants through the refurbishment of 73 hydroelectric units and associated plant equipment at nine hydroelectric plants; (2) rehabilitation and upgrading of the existing dam safety monitoring systems, as well as the installation of new dam safety monitoring systems and the rehabilitation of drainage facilities and spillway gates on six dams on the Dnipro River and one dam on the Dniester River; (3) institutional development of UkrHydroEnergo (UHE) through the establishment of a corporate-wide management information system (MIS); (4) implementation of the Energy Sector Reform and Development Program; and (5) implementation of the new Wholesale Electricity Market (WEM) concept.

Results achieved:

- The up-to-date rehabilitation of 59 hydropower units in four hydroelectric plants has been completed under the project, and the installed capacity of the rehabilitated hydroelectric plants was increased by about 156.3 megawatts by August 2014.
- The energy generated by Ukraine's hydropower stations is the cheapest source of electricity (24.94 kopiykas per kilowatt hour compared with more than 126 kopiykas per kilowatt hour generated by wind power). The project also pioneered the concept of carbon financing in Ukraine, as it was the first Joint Implementation Project under the Kyoto Protocol in the country.
- Bank studies are also contributing to improving the legal framework of the energy sector. The National Energy Regulatory Commission has successfully completed work on the new WEM model and has started to gradually implement it, which will bring many benefits, such as: new investments and security of supply, real competition, the possibility for demand-side participation, investments in own generation, and better utilization of generation and transmission capacities. A new WEM law was ratified by the Verkhovna Rada (Ukraine's Parliament) in October 2013 and became effective on January 1, 2014, after it was signed by the president.

Key Partners: The Bank team worked closely with (a) the Ministry of Energy and Coal, which was responsible for the overall policy setting; (b) UkrHydroEnergo, the ultimate beneficiary of the loan and implementing agency of the project; (c) the National Energy Regulatory Commission, charged with implementation of the new WEM model; and (d) the Energy Program Coordination Unit, responsible for implementation of the Energy Sector Reform and Development Program at the Ministry of Energy and Coal Industry.

Key Development Partners include the EBRD and the EIB, which are also working with UHE on the rehabilitation of hydropower stations, and the EC, with which the Bank team has coordinated closely on policy issues.

UKRAINE: ROAD AND SAFETY IMPROVEMENT PROJECT

Key Dates:
Approved: April 7, 2009
Effective: September 3, 2009
Closed: November 30, 2014
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
WB Loan	400.0	374	26
Total Project Cost	**400.0**		

***Source: World Bank BW data as of April 6, 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

As Ukraine moves to gain market share in Europe and other developed markets, especially for high value added products, some transport will inevitably shift from rail to road. At present, the modal split of freight transport remains typical of a Soviet era economy: road transport contributes relatively little. Official statistics show that less than 10 percent of freight traffic (in ton-kilometers) is by road, but this is changing quickly, leading to capacity constraints on parts of the road network. According to 2005 data, about 13 percent of the state network was in poor or very poor condition and required urgent investments, and about 26 percent of the state network was in fair condition, still needing to be upgraded to European technical and safety standards. Road safety is a serious issue in Ukraine, which has one of the worst records in the Europe and Central Asia (ECA) region in terms of road accidents and fatalities.

The Project Development Objective was to improve the condition and quality of sections between Boryspil and Lubny of the M-03 road and increase traffic safety on the roads.

The Project addresses the development objective mostly through (i) the upgrade of 150 kilometers of the Kyiv-Kharkiv road between Boryspil and Poltava, and (ii) the elimination of about 40 "accident black spots" through a variety of measures.

Results achieved:

Three of six large road rehabilitation contracts totaling roughly US$170 million (prior to the application of price adjustments) and 157 kilometers (km) are completed.

The road upgrading works funded from the World Bank loan on the M-03 road between Boryspil and Lubny improved the International Roughness Index up to 1.4. The elimination of black spots contributes to the improvement of road safety toward European Union (EU) levels on the M-18 road on the section between Simferopol and Alushta and will decrease fatalities in road accidents from eight to four victims per 10,000 vehicles by the end of the project.

The technical assistance to the state road agency UKRAVTODOR focused on the introduction of performance-based road maintenance contracts in Ukraine. Such contracts should help UKRAVTODOR to modernize the management and maintenance of the road network under its responsibility. It is expected that such contracts will lead to establishing a more efficient management of roads in Ukraine. In 2014, UKRAVTODOR signed a contract for performance-based road maintenance.

Key Partners: The World Bank team is working closely with UKRAVTODOR, the Government's road agency in charge of managing and maintaining the main road network.

Key Development Partners include EBRD, which is planning to fund the performance-based road contracts that are being prepared with funding from the World Bank loan for this project.

UKRAINE: ENERGY EFFICIENCY PROJECT

Key Dates:

Approved: May 17, 2011
Effective: November 9, 2011
Closing: March 31, 2016

Financing in million US Dollars:

Financier	Financing	Disbursed	Undisbursed
IBRD Loan	200.00	86	114
Total Project Cost	**200.00**		

***Source: World Bank BW data as of April 6, 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Ukraine is among the most energy-intensive economies in the world. For example, energy consumption to heat buildings is estimated to be roughly 3–5 times that of Western Europe, and the energy consumption of Ukrainian buildings is estimated to be about 2–2.5 times worse than in Western Europe. Low energy prices encourage high energy consumption and create unsustainable fiscal subsidies. For example, gas prices for district heating companies and households remain artificially low, creating a significant deficit for the integrated oil and gas company and sizable fiscal subsidies. In addition, limited metering and the absence of consumption-based billing in the heating sector further encourage energy waste.

The Government of Ukraine has made it a strategic priority to reduce Ukraine's energy intensity. The industrial sector, particularly heavy industry, is expected to be the primary source of energy savings if the country's production technologies could be updated. In the steel sector, for example, this could reduce energy consumption per unit of output more than fourfold. Other sectors, such as chemical, agricultural, and food production, are estimated to potentially benefit from equally significant energy savings, as are municipalities. Energy savings at the municipal level can be realized in public buildings and municipal services (district heating, water, waste management). Financing for these types of industrial and municipal energy-efficiency projects has been constrained by the financial crisis, which brought lending to a virtual standstill.

The Project Development Objective is to contribute to improved energy efficiency by industrial and commercial companies, municipalities, municipally owned enterprises, and energy service companies by facilitating sustainable financial intermediation for the financing of energy-efficiency investments. The project is a Financial Intermediary Loan to UkrEximBank, which has a successful track record in lending to industrial companies for energy-efficiency projects. In addition, UkrEximBank will on-lend the funds to participating banks to create a financial market for energy-efficiency projects. The project will also help develop energy efficiency projects in the municipal sector by identifying and financing bankable pilot projects.

The project has one component: financing energy-efficiency investments in the industrial and municipal sector. The Ministry of Regional Development and Housing will benefit from capacity-building measures to prepare municipal energy-efficiency projects under a Clean Technology Fund grant.

Expected Results: The project is expected to reduce energy consumption by industrial end users and municipalities as well as increase lending for energy-efficiency projects. Sixteen subprojects in the industrial sector have been approved with a record financing of US$110 million, helping to change the production technology of a cement factory to a more energy-efficient dry production method. Two participating banks are financing energy efficiency in the industrial and municipal sectors.

Key Partners: (i) UkrEximBank, the executing agency for the credit line as a financial intermediary and implementer of the proposed project; (ii) State Agency of Ukraine for Efficient Use of Energy Resources (SAER), which is responsible for developing energy-efficiency policies in Ukraine and overseeing their implementation; and (iii) commercial banks, which could become participating banks under the project.

Key Development Partners: The World Bank team has been closely coordinating with IFC, EBRD, the U.S. Agency for International Development (USAID), EIB, EC, and private sector representatives on policy issues and ongoing technical assistance activities related to energy efficiency, particularly at the municipal level.

UKRAINE: SECOND ROAD AND SAFETY IMPROVEMENT PROJECT

Key Dates:
Approved: September 20, 2012
Effective: December 25, 2012
Closing: December 31, 2016
Financing in million US Dollars*:

Financier	Financing	Disbursed	Undisbursed
WB Loan	450.0	168	282
Total Project Cost	**450.0**		

***Source: World Bank BW data as of April 6, 2015.**

Note: The amounts of disbursed funds may differ from the volume of financing due to exchange rate fluctuations at the time of disbursement.

The Second Road and Safety Improvement Project is aimed at improving the transport and operational status of the international highway M-03 Kyiv-Kharkiv-Dovzhansky in the section Lubny-Poltava. It is a logical continuation of the first Roads and Safety Improvement Project, and it is also expected to improve the transportation operational status of this road in the Boryspil-Lubny section.

The need for the urgent repair and rehabilitation of highway M-03 Kyiv-Kharkiv-Dovzhansky in the section Lubny-Poltava is due to the critical condition of the road surface: about 64 percent does not meet the strength requirements and needs increased solidity, and 23 percent does not meet the requirements for evenness and requires additional leveling layers and new asphalt pavement. That means that almost 70 percent of the road needs an overhaul, and every year this number will rapidly increase. In addition, more than 36 percent of the surfaced portion does not meet the requirements of traffic safety for the coefficient of adhesion.

In some sections potholes, cracks and rutting are responsible for slowing traffic down to 40–50 kilometers per hour (kmh) while the project provides for an estimated safe speed of 100–140 kmh, or the maximum speed permitted by the traffic rules, 90–110 kmh.

Improving traffic conditions on this road is extremely important because it provides the maintenance and development of the trade and economic, cultural, tourist, and other transport links of Ukraine with Russia, Belarus, the European Union, and other European countries.

The project objective is to bring the transport and operating condition of road M-03 Kyiv-Kharkiv-Dovzhansky in the section of Lubny to Poltava to the European level and improve the transport and operating condition of principal roads by using the risk map and protocols of assessment of the International Road Assessment Program (iRAP).

The project performs the tasks of (1) bringing the design, technical, and geometrical parameters of the road M-03 Kyiv-Kharkiv-Dovzhansky in the section of Lubny to Poltava, as well as the bridges, overpasses, and other structures on it, in line with the requirements of applicable regulations, and (2) improving road safety in sections of the principal roads in Ukraine.

Results achieved:

- Contracts amounting to US$230.7 million have been awarded. A contract for black spots elimination, identified under the iRAP, is planned.
- After upgrading the M-03 road, traffic will improve in the section between Lubny and Poltava. Black spots elimination will improve road safety on the principal roads of Ukraine.
- The technical assistance provided to UKRAVTODOR (the State Agency of Highways of Ukraine) is focused on the modernization of management and maintenance of the road networks for which UKRAVTODOR is responsible. It is expected that this will lead to improving the management of roads in Ukraine.

Key Partners: UKRAVTODOR is responsible for the management and maintenance of the main road network.
Key Development Partners include EBRD, EIB, and EU, which are actively involved in addressing the problems of the road sector. Industry experts from the World Bank, EBRD, and EIB make joint visits to Ukraine every six months on a regular basis to discuss the problems of the road transport sector with the Government.

UKRAINE: EUROPEAN NEIGHBORHOOD AND PARTNERSHIP INSTRUMENT (ENPI) EAST COUNTRIES FOREST LAW ENFORCEMENT AND GOVERNANCE (FLEG) II PROGRAM

Key Dates:
Approved: January 10, 2013
Effective: July 01, 2013
Closing: December 31, 2016

Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
EU	12,203,673		
Contribution paid	5,966,235	1,861,374	4,104,861
Total Project Cost	12,203,673		

***Source: Client Connection, World Bank as of March 1, 2015**

The first phase of the ENPI East Countries FLEG Program (€6 million) closed on December 31, 2012 and successfully met its objectives. The FLEG I final report was delivered to the donors in June 2013. The EC and the Bank signed an Administration Agreement for the second phase (€9 million) in December 2012, to be implemented through 2016 in the seven ENPI East countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine, and Russia) and regionally, in partnership with the World Wildlife Fund (WWF) and the International Union for Conservation of Nature (IUCN). The program builds on and further develops initiatives and activities undertaken during implementation of the first EU-funded FLEG Program (2008–12).

The **Program Development Objective** is to strengthen forest governance in the participating countries through improving implementation of relevant international processes; enhancing their forest policy, legislation, and institutional arrangements; and developing, testing, and evaluating sustainable forest management models at the local level on a pilot basis for future replication.

The Ukraine FLEG Program team prepared a draft country work plan, which was agreed to by the National Program Advisory Committee in June 2013 and formally approved by the Program Steering Committee in Minsk in October 2013. In the first year of activities implementation in Ukraine (which ended on June 30, 2014), the Ukraine FLEG Program focused on four Ukraine-specific priority areas: i) supporting dialogue on forest policy issues; ii) assessing and improving law enforcement and governance in the forest sector and thus improving forest legislation; iii) developing and improving practical measures aimed at ensuring multi-purpose, sustainable, and intensive forest management; and iv) increasing transparency in the forest sector through raising public awareness, disseminating knowledge and education, monitoring the situation, and supporting management-related decisions.

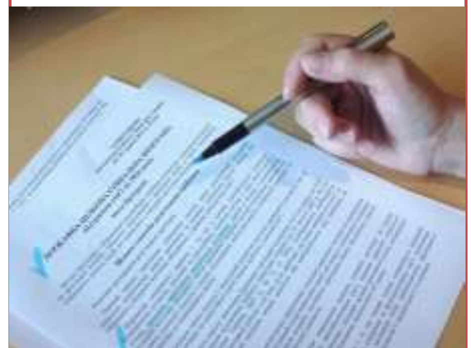
Expected results:

- A time-bound roadmap for regional follow-up meeting(s) to ensure the implementation of the 2005 St. Petersburg FLEG Ministerial Declaration has been prepared and approved by the EC and the participating countries, and progress in implementation is regularly monitored.
- All participating countries have analyzed their forest policies and made decisions on reform processes, which are monitored and are being implemented on schedule.
- EU member states' forest sector knowledge is made available to the participating countries. Knowledge exchange between the participating countries and EU member states is ongoing.
- Understanding and implementation of FLEG principles by forest practitioners and other stakeholders has improved as demonstrated in stakeholder surveys.
- Access to modern technology and information to improve forest law enforcement and forest governance has improved.

Key Partners: The Bank team works closely with forest, environmental/resource management, and law enforcement agencies, businesses, academia, and the civil society groups of participating countries.

Key Development Partners are European Commission of the European Communities, the International Union for Conservation of Nature (IUCN), and the World Wildlife Fund (WWF).

UKRAINE: SOCIAL SAFETY NETS MODERNIZATION PROJECT



Key Dates:
Approved: July 3, 2014
Effective: October 2, 2014
Closing: October 1, 2020
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD	300.00	21	279
Total Project Cost	**300.00**		

***Source: World Bank BW data as of April 6, 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project Development Objective is to improve the performance of Ukraine's social assistance and social services system for low-income families.
The Project would improve the performance of Ukraine's social assistance and social services system for low-income families.

This would be achieved by: (a) expanding the Guaranteed Minimum Income (GMI) program to increase the access of the extreme poor to a last-resort poverty reduction program; (b) supporting measures for more efficient administration of social benefits and services through: (i) strengthening performance management to be supported by the national management information system (MIS); (ii) streamlining oversight and control procedures under a central unit for social inspection, and (iii) integrating data on benefits and services into a single MIS for all local offices under the Ministry of Social Policy's (MoSP) subordination; and (c) designing and implementing a full range of social welfare services aimed at vulnerable children in four selected oblasts, from prevention to quality of service delivery and the de-institutionalization of children.

Results expected:

- **Increased access of the extreme poor to the GMI program measured by** (1) the share of individuals from the poorest decile receiving GMI, which will increase from 10 percent in 2012 (baseline) to 16 percent in 2019; and (2) increases in the GMI budget (at least threefold in nominal terms);
- **Improved administration of benefits and services measured by the creation of** (3) an effective and efficient system to prevent, detect, deter, and monitor error, fraud, and corruption (EFC) in place; and (4) an MIS that collects social assistance and service programs' information nationwide;
- **Enhanced provision of family-based care to support families in need and vulnerable families measured by an increase of 40 percent in the n**umber of children de-institutionalized and moved to alternative forms of care in three selected pilot regions (oblasts). The fourth pilot oblast will be addressing the de-institutionalization of disabled children specifically, and will not be accounted for in the project development impact?? (PDI), given the variation in strategies and placement.

Key Partners: the Ministry of Social Policy of Ukraine.
Key Development Partner is the International Bank for Reconstruction and Development (IBRD).

UKRAINE: SERVING PEOPLE, IMPROVING HEALTH PROJECT

Key Dates:
Approved: March 4, 2015
Effective (Expected): June 1, 2015
Closing: September 30, 2020
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD	214.73		
Co-financing	46.30		
Total Project Cost	**261.03**		

***Source: World Bank BW data**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project Development Objective is to improve the quality of health services in selected oblasts, with special focus on the primary and secondary prevention of cardiovascular diseases (CVDs) and cancer and the enhancement of the efficiency of the health care system.

The proposed project will have three components:

- Component 1: Improving service delivery at the local level. Under this component the project would provide financing to selected oblasts to carry out investment subprojects aimed at the prevention, early detection, and treatment of cardiovascular diseases and cancer and at increased efficiency in the health care delivery system.
- Component 2: Strengthening Ministry of Health (MoH) governance. All the activities in Component 2 have been clustered around five thematic areas, with MoH as the implementing agency: Payment System Reform, e-Health/Information Systems Development, Public Health, Information and Communications, and Capacity Building.
- Component 3: Supporting project implementation and monitoring and evaluation. This component would support the Project Consultancy Support Unit (PCSU) at the national level, responsible for project implementation support and technical assistance to the oblasts. In addition, it would sponsor complementary data collection and analytical activities for monitoring results.

Expected results from this project are cancer (breast, cervical) detected at earlier stages, a larger share of patients with high blood pressure under control, improved quality management (prevention, diagnosis, and treatment) of CVDs, enhanced hospital efficiency, and a reduction in average in-patient length of stay.

Key Partners: (i) the Ministry of Health of Ukraine is responsible for the implementation of health sector reforms and effective delivery of the project; and (ii) the Oblast State Administrations (OSAs) are responsible for the implementation of Component 1.

UKRAINE: MHP

Key Dates:

Approved: May 29, 2014
Signed: June 19, 2014

IFC financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
IFC's A loan	$100	2014
IFC's MCPP	$75	
B Loan	$75	

Myronivsky Hliboprodukt (MHP), is one of the leading Ukrainian poultry producers. IFC first invested in MHP back in 2003. Since then the company has grown into one of the largest poultry producers in Eastern Europe, controlling about half of the chicken market in Ukraine, a country of over 40 million people. MHP sells about 40 percent of its products in Ukraine through a network of small and medium-sized businesses and franchises, supporting economic activity across the country.

Project Development Objective

IFC's latest financing will support MHP, which employs over 30,000 people, in its plans to expand and further contribute to the development of Ukraine's agribusiness sector, a key driver for the economy.

Key Expected Results:

It is expected that with the IFC financing the project will help to:

- Support food security: MHP's overall volumes are expected to increase as a result of the project and contribute to improved food security in Ukraine and beyond by efficiently converting grain to meat through supporting a leading and efficient poultry producer;
- Provide a demonstration effect: by supporting MHP, a socially responsible and efficient producer with a solid track record, IFC's investment, which includes a B Loan, will encourage foreign and local investors to invest in Ukraine's economy in crisis times;
- Support job preservation and creation: MHP currently employs 30,000 staff, including 11,400 women. Direct employment is expected to increase.

Key Partners: MHP.

UKRAINE: GALNAFTOGAZ

Key Dates:

Approved: November 11, 2013
Signed: November 15, 2013
Invested: December 23, 2013

Financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
IFC	15.0	2014
Sberbank Europe AG, ING Bank	65.0	

Galnaftogaz is a leading Ukrainian fuel retailer. With headquarters in Lviv, Galnaftogaz is a long-standing IFC client, receiving advisory and investment services since 2003. Historically, its core market was the western part of Ukraine, but it wanted to expand and become a nationwide network. It now has a significant presence in central and southern Ukraine and aspires to further expand in the east, where there are fewer modern format gas filling stations.

Project Development Objective. IFC is helping provide the joint venture with a long-term financing package that is currently not possible to secure from commercial banks or capital markets locally, bolstering the infrastructure for petrochemicals distribution and expanding access to high-quality fuel services across the country. Through the project, IFC supports companies that continue to invest, expand, and create jobs despite the challenging economic environment in the country. IFC's mobilization efforts also help increase flows of commercial financing into Ukraine and contribute to the country's economic development. This is IFC's fifth engagement with Galnaftogaz, which owns and operates a network of 390 fueling stations and employs over 5,500 people. When IFC first engaged with Galnaftogaz, it employed 2,000 people.

Key Expected Results:

It is expected that with the new IFC financing, the project will help achieve:

- Support for the development of Ukraine's infrastructure according to modern and safe standards and the introduction of higher service standards in the region through Galnaftogaz' OKKO filling stations and convenience stores;
- Provision of reliably cleaner, high-quality fuels to Ukrainian automotive consumers;
- Employment generation/preservation: the investment is expected to create over 400 permanent jobs;
- Linkages to local suppliers: the stations' convenience stores, automotive services, and fast food restaurants will provide opportunities for local suppliers who supply the goods sold.

Key Partners: Galnaftogaz, ING Bank, Sberbank Europe AG.

UKRAINE: IFC ADVISORY FOR AGRIBUSINESS

Investment Climate for Agribusiness
Project start: January 2012
Project closure: 2015

Ukraine Agri-Insurance Development Project
Project start: January 1, 2007
Project closure: June 30, 2015

Agri-Finance Project
Project start: November 1, 2010
Project closure: June 30, 2015

Ukraine Crop Receipts Program
Project start: July 2013
Project closure: July 2016

Ukraine Resource Efficiency Program
Project start: January 10, 2010
Project closure: July 2015

Sustainable Development of SME Farmers
Project start: July 2013
Project closure: July 2017

Agri-Standards Advisory
Project start: July 2013
Project closure: July 2016

Considering Ukraine's export potential in agribusiness and its ability to play a global role in food security, IFC is implementing several advisory programs in the sector aimed at (i) improving the business environment by developing transparent and consistent regulations, improving access to finance for farmers by developing agri-insurance, and building the capacity of local banks through an agri-finance program; and (ii) enhancing the competitiveness of local producers.

Investment Climate for Agribusiness: improves the business environment in the agricultural sector by developing transparent and consistent regulations. **Ukraine Agri-Insurance Development Project:** aims to boost the use of agri-insurance as a risk-management tool fostering access to finance via the use of insured crops as collateral. **Agri-Finance Project:** helps increase access to finance for Ukrainian farmers through financial institutions. The **Crop Receipts Program** aims to support the introduction of crop receipts, a new financial instrument for Ukraine that will make high-quality seeds and other inputs more affordable for small and medium-scale farmers, helping boost agricultural productivity. **Ukraine Resource Efficiency Program:** promotes better practices and increased investments in water, energy, and other resource-efficient projects in agribusiness. **Sustainable Development of Small and Medium-Sized Enterprise (SME) Farmers**: promotes improved crop and horticultural farming methods to be implemented by medium and small-scale farmers in Ukraine, helping maximize its farming potential and increase output, a key for global food security. **Agri-Standards Advisory:** works with food producers across the supply chain to promote implementation of internationally recognized food safety principles and enhance environmental and social standards

Programs Development Objective

IFC Advisory work for agribusiness aims at helping Ukraine maximize its potential in the sector. The key areas of focus include:

- improving agricultural productivity by transferring technologies and practices and increasing economies of scale in farm production and processing;
- developing and adopting modern financial instruments for agriculture and for food retail; in particular, enactment of the law on agri-insurance and crop receipts was supported;
- linking farmers to markets;
- reducing risk and vulnerability and facilitating agricultural entry and exit;
- supporting legislation to cancel an obligatory requirement to register export contracts;
- enhancing environmental services and sustainability.

Key partners: The IFC advisory programs in Ukraine's agribusiness sector are implemented in partnership with the Governments of Austria, Canada, Finland, the Netherlands, and Switzerland.

UKRAINE: IFC ENERGY EFFICIENCY ADVISORY FOR RESIDENTIAL AND INDUSTRIAL SECTORS

Ukraine Residential Energy Efficiency
Key dates:
Project start: January 1, 2010
Project closure: January, 2018

Ukraine Sustainable Energy Finance
Key dates:
Project start: July 1, 2010
Project closure: January, 2016

Ukraine is among the most energy-intensive economies in the world. The Ukrainian Government has made it a strategic priority to reduce Ukraine's energy intensity. IFC is implementing advisory programs aimed at helping the country improve energy efficiency in the residential and industrial sectors and support a better access to finance for companies and owners of the multifamily buildings implementing energy-efficient improvements.

The Ukraine Residential Energy Efficiency Project is designed to create an effective legal and institutional platform to support local Ukrainian homeowner associations in obtaining access to financing for energy-efficient modernization projects in multifamily residential buildings. Through the project, IFC aims to facilitate investment in energy efficiency in Ukraine's residential sector.

The Ukraine Sustainable Energy Finance Project seeks to establish a sustainable market for sustainable energy finance (SEF) products in Ukraine targeted at the industrial sector by supporting the development of financially viable sustainable energy finance-lending products through local financial institutions; strengthening the capacity and effectiveness of local technical experts; and building awareness and demand for sustainable energy finance.

The Projects' Development Objectives: The projects are building off of IFC's experience implementing similar energy-efficiency projects in the ECA region and will contribute to increasing investments in sustainable energy, energy–efficiency, and climate change–related projects across the region. The work will help create a platform to support local banks to develop and market energy-efficiency products to the industrial and residential sectors and strengthen the capacity and effectiveness of local experts.

In close cooperation with government agencies, the **Ukraine Residential Energy Efficiency Project** developed legislation to enable local homeowner association companies to access finance to improve energy efficiency in residential buildings. The project has also worked with two pilot cities—Vinnitsa and Lviv—to increase awareness about residential energy-efficiency improvements and plans to work with up to 10 municipalities across Ukraine by providing advice and consultants.

Key Partners: These programs are implemented in Ukraine in partnership with the Governments of Austria, the Netherlands, and Switzerland

MULTILATERAL INVESTMENT GUARANTEE AGENCY PROJECTS IN UKRAINE

Project name: Porsche Mobility

Fiscal year: 2014
Guarantee holder: Porsche Corporate Finance GmbH
Investor country: Austria
Project Board date: September 11, 2013
Gross exposure: US$23.9 million

On September 23, 2013, MIGA issued guarantees of US$23.9 million covering shareholder loans by Porsche Corporate Finance GmbH of Austria to Porsche Mobility TOV (PM) in Ukraine. The coverage is for a period of up to 15 years against the risks of transfer restriction, expropriation, and war and civil disturbance.

The project will refinance the subsidiary's activities in financing Volkswagen and Audi vehicles and support their growth in Ukraine in an environment of limited liquidity. PM will provide financial services (automotive loans) mostly for micro, small, and medium-sized enterprises (MSMEs) and individuals who might not qualify for bank loans or would find them unaffordable.

The Eurozone crisis has had a severe impact on domestic banks in Ukraine and the sector is still facing challenges. A high nonperforming loan (NPL) ratio makes access to new financing particularly onerous, as high interest rate levels and collateral requirements make it difficult for MSMEs and individuals to qualify for fresh credit lines. The project supports the development of the private sector in Ukraine by providing affordable finance in the form of leasing and loans to businesses and individuals.

The project is consistent with the World Bank Group's Country Partnership Strategy for Ukraine, which emphasizes the need to attract foreign direct investment (FDI) to improve productivity and create new jobs in the private sector. It also aims to contribute to the World Bank Group's strategy of providing targeted financing for MSMEs.

Project name: Raiffeisen Bank AVAL

Fiscal year: 2013
Guarantee holder: Raiffeisen Bank International AG
Investor country: Austria
Project Board date: June 11, 2013
Gross exposure: US$142.5 million

On June 21, 2013, MIGA issued a guarantee of US$142.5 million covering a loan guarantee by Raiffeisen Bank International AG (RBI) of Austria in support of funds raised by its Ukrainian subsidiary Raiffeisen Bank AVAL (RBAV). The coverage is for a period of up to eight years against the risks of transfer restriction and expropriation of funds.

The state of Ukraine's economy continues to remain delicate in the aftermath of the 2008 financial crisis as a result of spillover effects from its Eurozone neighbors.

The project will continue to bolster the capital base of a systemically important bank, strengthening the banking sector in Ukraine in a difficult macroeconomic environment.

RBAV provides new credit to the economy—in particular to corporates, farms, and small and medium-sized enterprises (SMEs) that create jobs and foster economic activity and growth.

MIGA's guarantee to the project is fully consistent with the World Bank Group's Country Partnership Strategy for Ukraine that calls for job creation and the attraction of FDI to improve productivity and international competitiveness. It is also consistent with the goals of the Vienna 2 Initiative for the countries of Central, Eastern, and South East Europe—through which MIGA seeks to support Western banks active in the region.

Project name: ProCredit Group Central Bank Mandatory Reserves Coverage

Fiscal year: 2012
Guarantee holder: ProCredit Holding AG & Co. KGaA
Investor country: Germany
Project Board date: December 01, 2011
Gross exposure: US$4.0 million

On December 22, 2011, MIGA issued a guarantee of €3 million (about US$4.0 million equivalent) to cover an investment by ProCredit Holding AG & Co. KGaA in its subsidiary in Ukraine. The coverage is for a period of up to 10 years against the risk of expropriation of funds for mandatory reserves held by the subsidiary in the central bank of its jurisdiction.

MIGA provided coverage of US$5.6 million under the project in FY11. This additional coverage brings MIGA's exposure under the project to US$9.6 million.

This project is part of a master contract that MIGA has issued. ProCredit Holding AG & Co. KGaA is headquartered in Germany and is the parent company of 21 banks (ProCredit group). The ProCredit group is a provider of finance to some 750,000 MSMEs in Latin America, Eastern and Central Europe, and Africa. Throughout the world, banks are required to maintain mandatory reserves with the central banks of their respective jurisdictions. Currently, the ProCredit group's capital adequacy ratio (CAR) is calculated according to Basel II, but in the future it will also be calculated according to the German Banking Act. Under this act, at a consolidated level, reserves deposited at the various central banks can attract a risk weighting of 100 or even 150 percent, depending on the country. This risk weighting determines the amount of equity required to maintain a specified CAR in accordance with the German Banking Act.

ProCredit Holding AG & Co. KGaA approached MIGA to obtain capital relief from the CAR requirements. By obtaining MIGA's insurance against the risk of expropriation of funds, the risk weighting for mandatory reserves held at the central bank can be reduced. A lower risk weighting would allow ProCredit Holding AG & Co. KGaA to free up equity currently tied up for CAR maintenance purposes, thereby allowing these funds to be injected into its subsidiary banks. This in turn will allow ProCredit Holding AG & Co. KGaA's emerging market subsidiary banks across its network to increase their lending activities.

MIGA's support will allow ProCredit Holding AG & Co. KGaA to direct equity to subsidiaries with the greatest need. The additional services these banks offer are helping to stimulate growth, generate employment, and reduce poverty.

MIGA's support for this project is aligned with the World Bank Group's microfinance strategy, which includes improving the supply of microfinance in large but underserved markets; enhancing deposit capacity by assisting microfinance institutions in savings mobilization; promoting capacity building; creating and shaping markets; and fostering innovation.

Project name: Whirlpool Ukraine LLC

Fiscal year: 2012
Guarantee holder: n.v. Whirlpool Europe Coordination Center s.a.
Investor country: Belgium
Project Board date: May 30, 2012
Gross exposure: US$6.6 million

On June 22, 2012, MIGA issued a guarantee of US$6.6 million to cover a non-shareholder loan from n.v. Whirlpool Europe Coordination Center s.a. of Belgium to Whirlpool Ukraine LLC. The coverage is for a period of up to three years against the risks of transfer restriction, expropriation, and war and civil disturbance.

Whirlpool Ukraine (WU) is the local sales office for Whirlpool Corporation, a global leader in the home appliance industry. It sells air conditioners, washing machines, microwaves, dishwashers, built-in stoves, hoods, and built-in ovens to distributors, wholesalers, and retailers in Ukraine. WU's operations comprise a sales office in downtown Kyiv and a warehouse in the outskirts of the city. WU buys its inventory from other Whirlpool entities and from third-party vendors. The company receives the products fully assembled, stores them in its warehouse until they are sold, and delivers them to its customers. WU plans to serve the Moldova, Georgia, Uzbekistan, Armenia, and Azerbaijan markets in the future.

WU has been having a positive development impact in Kyiv since its conversion into a sales operation in 2011. The operation has hired six additional employees for a total of 30 permanent positions and expects to open new positions as the company grows and expands into new markets. WU also participates in knowledge transfer by encouraging its employees to take courses at Whirlpool University, Whirlpool's internal training program. Courses are designed to help the company's personnel develop leadership, operational, and cross-functional competencies.

The project is aligned with the World Bank Group's Country Partnership Strategy for Ukraine, which advocates focusing on growth, competitiveness, and job creation, improvements in the business climate, and the promotion of domestic investment and FDIs to achieve productivity improvements.

The project was underwritten through MIGA's Small Investment Program.

Project name: ProCredit Group Central Bank Mandatory Reserves Coverage

Fiscal year: 2011
Guarantee holder: ProCredit Holding
Investor country: Germany
Project Board date: November 23, 2010
Gross exposure: US$5.6 million

On December 22, 2010, MIGA issued a guarantee of US$5.6 million to ProCredit Holding (PCH) covering its investment in its subsidiary in Ukraine. The coverage is for a period of up to 10 years against the risk of expropriation of funds for mandatory reserves held by the subsidiary in the central bank of its jurisdiction.

This project is part of a master contract that MIGA has issued. PCH is headquartered in Germany and is the parent company of 21 banks (ProCredit group). The ProCredit group is a provider of finance to some 750,000 MSMEs in Latin America, Eastern and Central Europe, and Africa. Throughout the world, banks are required to maintain mandatory reserves with the central banks of their respective jurisdictions. The ProCredit group's capital adequacy ratio (CAR) is calculated according to the German Banking Act. Under this act, at a consolidated level, reserves deposited at the various central banks can attract a risk weighting of 100 or even 150 percent, depending on the country. This risk weighting determines the amount of equity required to maintain a specified CAR in accordance with the German Banking Act.

The guarantee issued by MIGA will help PCH obtain capital relief from the CAR requirements. By obtaining MIGA's insurance against the risk of expropriation of funds, the risk weighting for mandatory reserves held at the central bank can be reduced. A lower risk weighting will allow PCH to free up equity currently tied up for CAR maintenance purposes, thereby allowing these funds to be injected into its subsidiary banks. This in turn will allow PCH's emerging market subsidiary banks across its network to increase their lending activities.

MIGA's support will help PCH optimize its capital management across its 21 banks, allowing PCH to direct equity to subsidiaries with the greatest need. These banks will be able to offer additional financial services to MSMEs at a time of macroeconomic challenges. Supporting productive small businesses will help stimulate growth, generate employment, and reduce poverty.

MIGA's support for this project is aligned with the World Bank Group's microfinance strategy, which includes improving the supply of microfinance in large but underserved markets; enhancing deposit capacity by assisting microfinance institutions in savings mobilization; promoting capacity building; creating and shaping markets; and fostering innovation.

Project name: Raiffeisen Leasing Aval LLC

Fiscal year: 2009
Guarantee holder: Raiffeisen Zentralbank Österreich AG
Investor country: Austria
Project Board date: October 28, 2008
Gross exposure: US$142.5 million

MIGA has issued a guarantee of US$142.5 million covering Raiffeisen Zentralbank Österreich AG's (RZB) US$150 million shareholder loan to its leasing subsidiary in Ukraine, Raiffeisen Leasing Aval LLC (RLAV). The coverage is for a period of up to seven years against the risks of transfer restriction and expropriation of funds.

RZB's shareholder loan will enable RLAV to respond to rapidly growing demand for leasing products in Ukraine. RLAV will use the proceeds of the shareholder loan to support its leasing portfolio of equipment and machinery to Ukrainian enterprises across various sectors. A substantial part of this funding is expected to benefit SMEs and support investments in agriculture. The SME sector is an underserved segment of the Ukrainian market, as SMEs often do not qualify for bank financing and lack the capital to purchase fixed assets to grow their businesses. RZB's shareholder loan is also expected to help RLAV to support the share of long-term leases in its portfolio. This is MIGA's second guarantee in support of RLAV.

Ukraine is among the countries in the region hardest hit by the global economic crisis. Until September 2008, it was one of Europe's fastest-growing economies, with annual growth of more than 7 percent for eight years. The crisis has dried up foreign loans, crippled banks with defaults, and triggered massive layoffs.

The World Bank Group's Country Partnership Strategy for Ukraine emphasizes the need to support the development of non-bank financial institutions, including leasing companies, to deepen the financial sector, broaden the availability of financial instruments to Ukrainian enterprises, and support private investment. This investment fits well with the Country Partnership Strategy. First, it promotes the involvement of strategic foreign investors, such as RZB, which are playing an important role in the development of the leasing industry in Ukraine in these difficult times. Second, this project is expected to support investments in the agribusiness sector, an important area for job creation and the development of local industries.

Project name: Joint Stock Commercial Bank for Social Development Ukrsotsbank

Fiscal year: 2009
Guarantee holder: UniCredit Bank Austria AG
Investor country: Austria
Project Board date: October 28, 2008
Gross exposure: US$247.0 million

MIGA has issued a guarantee of US$247 million covering a US$260 million shareholder loan from UniCredit Bank Austria AG (UBA) to Joint Stock Commercial Bank for Social Development Ukrsotsbank (USB) of Ukraine. The coverage is for a period of up to seven years against the risks of transfer restriction, expropriation, and war and civil disturbance.

UBA is a subholding company of UniCredit Group of Italy. USB, Ukraine's fourth-largest bank, was acquired by UniCredit through UBA in January 2008. The long-term shareholder loan is expected to provide USB with liquidity at a time of limited availability of long-term funding. This is expected to improve USB's asset-liability management.

Ukraine is among the East European countries hardest hit by the global financial turmoil. Economic growth averaged above 7 percent in the country between 2000 and 2007, but the global downturn has seen investors and lenders withdraw. The country's stocks, banks, and currency have all suffered. MIGA's support to the country's banking sector is part of the World Bank Group's efforts to help crisis-hit countries cope with the turmoil in the global financial markets.

Over the medium to long term, the World Bank Group's Country Partnership Strategy for Ukraine places a strong emphasis on improving the environment for private sector development and identifies building financial institutions as a priority area. This project is consistent with the first pillar—sustaining growth and improving competitiveness—of the World Bank's Country Partnership Strategy for Ukraine.

Project name: OJSC Raiffeisen Bank Aval

Fiscal year 2008
Guarantee holder: Raiffeisen Zentralbank Österreich AG
Investor country: Austria
Gross exposure: US$380.0 million

MIGA has issued a guarantee of US$380 million to Raiffeisen Zentralbank Österreich AG (RZB) of Austria covering its shareholder loan of US$400 million to its subsidiary, OJSC Raiffeisen Bank Aval. MIGA's guarantee is for a period of up to six years and provides coverage against the risks of transfer restriction and expropriation of funds.

RZB's shareholder loan will provide funding to Raiffeisen Bank Aval to enable it to expand its portfolio and improve the range and quality of its banking services. Proceeds of the loan are expected to be on-lent primarily to individuals and SMEs, mostly for long-term assets such as residential and commercial mortgages.

The retail business potential of Ukrainian banks is currently limited by a shortage of long-term funding in the local market. This loan from RZB is designed to provide Raiffeisen Bank Aval, the second-largest lender in the country, with the long-term funding needed to increase its reach into underserved markets. In particular, the project is expected to support the role of Raiffeisen Bank Aval as one of the market leaders in SME banking. SME loans currently account for about 20 percent of the bank's total portfolio, and in 2006, Raiffeisen Bank Aval established a SME business unit.

The World Bank Group's Country Partnership Strategy for Ukraine places a strong emphasis on improving the environment for private sector development and identifies building financial institutions as a priority area. This project will help Ukraine's private sector gain access to banking and financial products to help the country achieve sustainable growth.

Project name Can-Pack (Ukraine) Ltd.

Fiscal year: 2008
Guarantee holder: Can-Pack S.A.
Investor country: Poland
Project Board date: June 17, 2008
Gross exposure: US$21.0 million

MIGA has issued guarantees totaling US$21.04 million to Can-Pack S.A of Poland covering its equity investment, shareholder loan, and management contract with Can-Pack (Ukraine) Ltd. The coverage is against the risks of transfer restriction, expropriation, and war and civil disturbance. The equity investment and management contract will be covered for a period of up to 10 years. The duration of the coverage under the shareholder loan will be four years.

The project involves the expansion of an existing aluminum beverage can production plant in Vyshgorod, Ukraine for which MIGA is currently providing coverage. MIGA's coverage is being modified to cover an increase in the equity investment, a management contract with the project enterprise, and the issuance of a new shareholder loan to the project.

The plant has been operating since 2003. The expansion of the production line will include the installation, assembly, and operation of new equipment. The expansion will increase the plant's production capacity from the current 1,700 cans per minute to 2,400—an increase from 650 million to 950 million cans per year. To accommodate the increase in finished products and materials, a new warehouse will be built on land adjacent to the existing plant.

Can-Pack S.A.—through its subsidiary Can Pack Ukraine Ltd.—is the largest producer of beverage cans in Ukraine and the fourth-largest beverage can producer in Europe. The increase in production capacity is expected to help the project company meet the growing demand for canned beverages in Ukraine and maintain its market share in the country, as well as in Kazakhstan, Georgia, Russia, and other Commonwealth of Independent States (CIS) countries.

The project is expected to create local employment during the construction and design phases of the new expansion, as well as for the operation of new equipment. The transfer of high-tech manufacturing equipment from Poland is expected to yield positive developmental benefits in the form of training for local staff, for which an annual budget of US$200,000 has been allocated. The expansion is also expected to generate tax revenues of approximately US$7.5 million in present value terms over 11 years of operation.

Improving competitiveness and supporting the modernization of production is a priority area for World Bank Group activities in Ukraine.

Project name: Joint Stock Commercial Bank Ukrsotsbank

Fiscal year: 2008
Guarantee holder: Bank Austria
Investor country: Austria
Project Board date: June 12, 2008
Gross exposure: US$142.5 million

MIGA has issued a guarantee of US$142.5 million to Bank Austria, a member of UniCredit Group, covering its shareholder loan to Joint Stock Commercial Bank Ukrsotsbank (USB) in Ukraine. The coverage is for a period of up to 11 years against the risks of transfer restriction, expropriation, and war and civil disturbance.

The project involves a subordinated shareholder loan of US$150 million from Bank Austria to USB, Ukraine's fourth-largest bank. Bank Austria is responsible for UniCredit Group's operations in Central and East Europe and is USB's direct parent company. The loan increased USB's regulatory capital, aiming to strengthen the bank and allow it to grow in a sustainable manner.

One of the two pillars of the World Bank Group's Country Partnership Strategy for Ukraine is sustaining growth and improving competitiveness. This encompasses the need to deepen the financial sector and to improve its stability in order to facilitate business growth and spur private investment. Foreign participation in Ukraine's banking sector is also expected to lead to a rapid transfer of product and credit-risk management expertise.

Project name: Raiffeisen Leasing Aval LLC (RLAV)

Fiscal year: 2008
Guarantee holder: Raiffeisen Zentralbank Österreich AG
Investor country: Austria
Gross exposure: US$47.5 million

MIGA has issued a guarantee of US$47.5 million to Raiffeisen Zentralbank Österreich AG (RZB) covering its shareholder loan of US$50 million to its leasing subsidiary in Ukraine, Raiffeisen Leasing Aval LLP (RLAV). The guarantee is covering the risks of transfer restriction and expropriation of funds for a period of up to six years.

RZB's shareholder loan is expected to enable RLAV to respond to the rapidly growing demand for leasing products in Ukraine. RLAV will use the proceeds of the shareholder loan to extend long-term leases of equipment, machinery, and vehicles to Ukrainian enterprises across various sectors. A substantial part of the loan has benefited SMEs and supported investment in agriculture, both of which were underserved segments of the leasing market identified by a survey conducted by IFC.

This is MIGA's first guarantee in support of RZB's leasing operations in Ukraine. By supporting a global financial institution's new leasing subsidiary, MIGA will also contribute to the development of the leasing sector in Ukraine. MIGA is playing an important role in this transaction, as political risk mitigation is a key requirement for the lender to proceed with this investment.

The World Bank Group's Country Partnership Strategy for Ukraine places a strong emphasis on improving the environment for private sector development and identifies building financial institutions as a priority area. The project is expected to help Ukraine's private sector gain greater access to financial products and help the country achieve sustainable growth. It is, therefore, consistent with the World Bank's Country Partnership Strategy for Ukraine.

Project name Can-Pack Ukraine Ltd.

Fiscal year: 2006
Guarantee holder: Pol-Am-Pack, Can-Pack S.A.
Investor country: Poland
Gross exposure: US$33.7 million

MIGA issued two guarantees totaling US$33.7 million to Can-Pack S.A. and its subsidiary, Pol-Am-Pack, both of Poland, for their investment in a Ukrainian subsidiary, Can-Pack Ukraine Ltd. The contracts replace a previous contract issued to Can-Pack S.A. in 2003, reflecting Can-Pack's transfer of 47 percent control of Can-Pack Ukraine to Pol-Am-Pack. The guarantees cover the investors' equity investment in the project. The coverage protects against the risks of expropriation, war and civil disturbance, and transfer restriction.

The project involves the operation of an aluminum beverage can production plant. MIGA is also providing coverage for a shareholder loan and a management and technical assistance contract for the project under guarantees issued in 2003.