World Bank Group – Ukraine Partnership: Country Program Snapshot October 2014

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Current Political Context

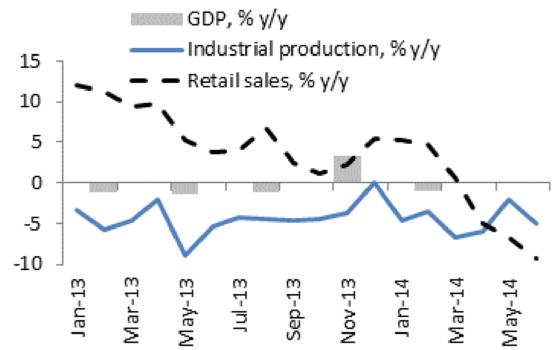
Following intense economic and political turbulence, a national unity interim government was appointed on February 27, 2014. On May 25, 2014, Mr. Petro Poroshenko was elected as the new president of Ukraine. The interim government has committed to an ambitious reform agenda and has requested World Bank Group (WBG) assistance. On March 10, 2014, the WBG announced that in addition to its ongoing portfolio of US$3.7 billion, it stands ready to provide up to US$3.5 billion of new financing to Ukraine and to assist the country in formulating and implementing urgently needed reforms. This snapshot focuses on the economic situation and WBG support to the people of Ukraine.

Growth and External Performance

Growth in real GDP halted in 2012–13 and fell sharply in 2014 against the backdrop of geopolitical tensions. After five consecutive quarters of negative growth that started in the second half of 2012, Ukraine's GDP grew by 3.7 percent year-on-year in the last quarter of 2013 because of a good harvest and a low statistical base. This brought GDP growth to 0.0 percent in 2013 (0.2 percent in 2012). Negative trends in the real sector have deepened in 2014 due to the situation in eastern Ukraine, developments that were impacted primarily by the conflict, which intensified in June–August. GDP declined by 1.1 percent in the first quarter of 2014 and 4.6 percent in the second quarter, bringing the total decline of the first half of the year to -2.9 percent year-on-year.

Industrial production posted a 5.8 percent decline in the first six months of 2014. The decline has accelerated over the past few months and in July, industrial production contracted by 12.1 percent year-on-year, driven by sharp declines in the Luhansk and Donetsk regions (by 56 and 29 percent year-on-year, respectively). Transport and wholesale trade also declined in July by 11.5 and 13.1 percent year-on-year, respectively. Retail sales fell by 3.2 percent year-on-year during the first half of 2014 as a result of the devaluation of the hryvnia and a tighter fiscal policy. Agriculture still remains a well-performing sector, growing at 6.3 percent, year-on-year, for January–August, and growth has been seen in all regions of Ukraine. The consumer price index (CPI) reached 14.2 percent year-on-year in August because of devaluation and increases in gas and utility tariffs.

Figure 1. Consumption declined due to economic adjustment

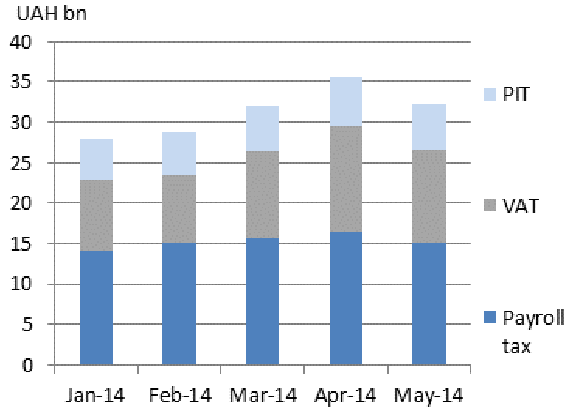


The fiscal deficit remained high in 2013 and pressures continued to grow in 2014. The fiscal deficit, including the Naftogaz deficit, was around 6.5 percent of GDP in 2013. In 2014, economic contraction and the deteriorating situation in the east have been putting pressure on fiscal accounts. To contain the budget deficit during this year, the Government adopted a package of fiscal measures in March 2014 to bolster revenues while curtailing expenditures. Despite this, revenue performance deteriorated due to sharper economic contraction and the difficulty in collecting taxes in the east. Proceeds from all the main taxes dropped, which was partly compensated for by frontloaded profit transfers from the National Bank of Ukraine (NBU), though no further transfers are planned for the rest of the year.

Meanwhile, the ongoing conflict in the east is adding to security-related expenditure pressures. In addition, the quasi-fiscal deficit of Naftogaz widened due to increased import gas prices in hryvnia terms following the devaluation and higher gas imports during the first quarter of 2014 to fill storages and lower sales to industrial consumers because of weak economic activity. In view of these developments, the Parliament revised the budget in July to curtail discretionary spending on subsidies, investment, and goods and services, while enhancing revenue by extending the value added tax (VAT) exemption on grain exports and eliminating VAT exemptions on wood production. The higher deficit of Naftogaz was partly monetized through the issuance of recapitalization treasury bills (UAH 21 billion) below the line, adding to the public debt burden.

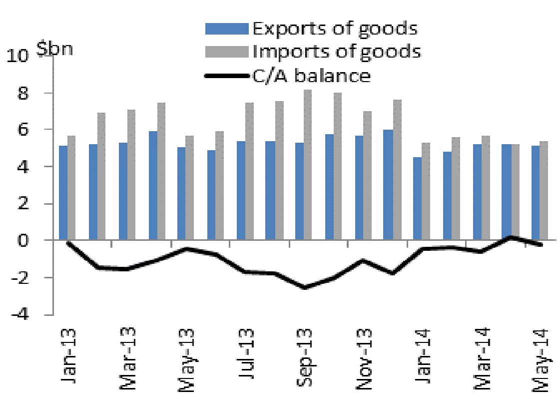
Naftogaz also accumulated external payment arrears.

Figure 2. Main tax revenues are falling



After widening steadily over the past few years, the external current account has adjusted rapidly after the shift to the flexible exchange rate regime. Devaluation in February 2104 following the abandonment of the long-standing *de facto* peg to the dollar and fiscal tightening led to a sharp adjustment of the current account deficit to 3.7 percent of GDP in the first quarter of 2014, compared to 8 percent of GDP during the first quarter the year before. Imports fell sharply (-21.6 percent during first quarter of 2014 in value terms) due to the combined effect of devaluation, weak domestic demand, and the lower price of gas imports during the first quarter. Meanwhile, exports continued to decline due to weak external conditions, although at a slowing pace.

Figure 3. Devaluation lowered the current account deficit



The escalating conflict is expected to disrupt economic activity into the next year, implying a weaker outlook for the real sector. Real GDP is now expected to decline by 6.5 percent in 2014. While output decline during the first half of the year was relatively shallow, economic contraction is expected to continue to deepen over the coming months as a result of the ongoing macroeconomic adjustment and protracted instability in the industrialized east. In particular, tighter fiscal and monetary policies—underpinning the necessary adjustment—are projected to be contractionary in the short term and negatively affect the purchasing power of households and businesses. Credit to the economy is also expected to contract in real terms during 2014 as a result of tighter liquidity and lending standards. Therefore, both consumption and fixed investment are expected to decline in 2014. While external demand from Ukraine's largest trade partners is likely to be muted, net exports are projected to positively contribute to growth, as imports are expected to continue contracting more due to the depreciation.

From 2015 onward, a return of positive, albeit low, growth is expected to be driven by growing net exports and, to a lesser extent, a recovery in consumption. Exports of steel, chemicals, and agricultural products are expected to rebound because of devaluation in the context of an improving external environment. Investment is expected to recover more slowly due to persistent external risks and tighter credit conditions in the banking system. Following three consecutive years of sharp decline, investment is projected to rebound in 2016 due to the low base effect and improving investor sentiment, contributing positively to economic growth. Equally, credit growth is expected to resume in 2016, provided that problems in the banking sector are resolved through improved deposit insurance and the recapitalization of banks. The recovery in economic activity should be underpinned by accelerated structural reforms, including an improved investment climate, which are expected to boost the competitiveness and productivity of Ukraine's businesses—a precondition for the return of economic growth and a sustainable recovery.

The risks facing Ukraine are substantial and cannot be easily or fully mitigated. *First*, a deeper than expected contraction during 2014 and a slower recovery during 2015 could impede the adjustment. A prolonged confrontation in the heavily industrialized eastern part of Ukraine could negatively affect growth. Lower levels of bank liquidity, especially in the context of significant risks in the banking sector and monetary tightening, could constrain the credit supply, in turn delaying the pickup of domestic investment at the same time that foreign investment may remain subdued due to heightened political uncertainty. Meanwhile, the recovery in consumption could be undermined by the combined effect of fiscal adjustment and depreciation. ***Second***, external liquidity constraints could emerge if financing needs rise above those projected in the baseline, or if rollover rates drop more due to tighter financial conditions in global markets and/or heightened risk perception due to political uncertainty. Shortfalls in official financing due to slippages in implementing macroeconomic and structural reforms could potentially reduce external support and complicate efforts to finance the current account and fiscal deficits. ***Third***, the weaker growth of key trade partners could undermine the recovery of exports, dampening the growth and adjustment of the current account.

Fourth*, geopolitical tensions and disputes over gas prices could lead to a prolonged disruption in the gas supply** as well as possible restrictions on exports to the Russian Federation, reducing growth and leading to larger than expected external imbalances. ***Fifth, efforts to restore sustainable public finances could prove to be more challenging than expected. The economic downturn and compliance problems in the east could undermine revenue performance despite policy changes and efforts to improve tax administration. Expenditures will be higher due to increased military spending and reconstruction in affected areas. Meanwhile, cuts in social spending and wage freezes could run into resistance and kindle further unrest. Pressures are exacerbated by Naftogaz, a major fiscal risk. While the Government has committed to reduce the Naftogaz deficit, the complex nature of the problem, the size of the adjustment, and the political economy could make this challenging, especially in the short to medium term.

***Sixth*, problems in the financial sector can create vicious circles between initial macroeconomic shocks, balance sheet problems in banks, and instability and liquidity in financial markets,** which in turn deepen the economic downturn and may impose a fiscal burden on the budget. The current macroeconomic crisis has already aggravated risks in the banking sector because currency depreciation is putting pressure on banks' capital through losses generated from open short foreign exchange positions and the increase in nonperforming loans (NPLs), which are already high. The deterioration in capital adequacy in turn is likely to force banks to make adjustments in their lending standards, and the ensuing credit crunch would further weaken investment and spending, amplifying the economic downturn.

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 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; they have been further weakened by the continuing depreciation of the hryvnia, which has lost more than 50 percent of its value since the start of 2014. Depreciation is putting an immediate strain on the 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 the year, and the risk is very high that a large number of additional banks will follow, shifting the burden to the Deposit Guarantee Fund (DGF), which may be required to make very large depositor payouts and resolve multiple banks quickly.

In this context, the WBG is responding quickly to reduce the impact of the crisis and restore growth. Together with the authorities, the WBG 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 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 2014 (surveys for the top 15 banks were completed at end-July). The NBU will then require the banks to prepare and implement recapitalization and restructuring action plans, as necessary, by end-February 2015.

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, including additional criteria for the timely identification of problem and insolvent banks. Moreover, a mechanism was established for back-up funding to the DGF from the Government, and additional instruments have been provided to enable a 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 an 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 the 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 WBG 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. Also, the WBG is 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 WBG has assisted the Government in streamlining business permits and licensing and 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 WBG 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 sector 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 2104, while the second operation is currently in preparation and is planned for the Board's review in December.

The Bank has also been supporting the provision of long-term financial resources to Ukraine's export sector through lending instruments. The *First Export Development Project (EDP1)* was completed in 2004. The successor *EDP2*, implemented by state-owned UkrEximBank, serves as a catalyst to supporting export and real sector growth in Ukraine by providing medium- and long-term working capital and investment finance to private exporting enterprises. As of end-July 2014, the entire amount of the original *EDP2* credit line and more than half of the Additional Financing amount, totaling US$243.50 million, had been disbursed. The line of credit has benefited 53 private sector export-oriented projects across various industries and regions.

A woman buys bread in Dnipropetrovsk

Poverty and Social Protection

The *Social Assistance System Modernization Project (SASMP)* and the *Development Policy Loan* (*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 the delivery of benefits and related services in better, more comfortable conditions.

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.

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

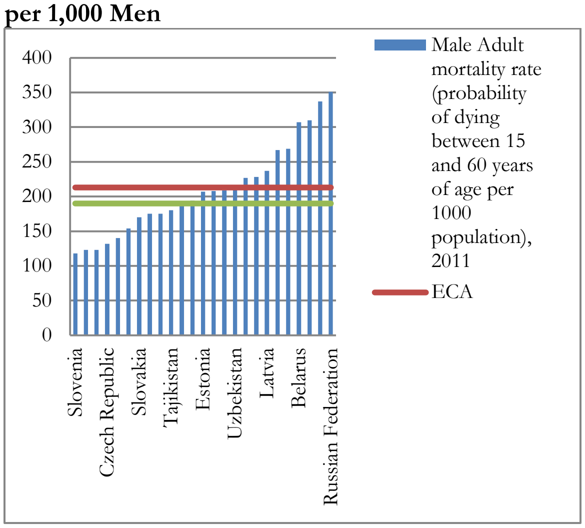
Over 2014–19, the number of beneficiary families is expected to increase to 300,000 (1.1 million persons), expanding the program's coverage to about 2.5 percent of the population. By 2018, the Government intends to put in place activation services and incentives, with the objective of supporting the 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 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 are among the highest not only in Europe but also in the world.

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 Ukraine is responsible for approximately 70 percent of the total number of deaths), followed by injuries and poisoning (14 percent, most of which are alcohol- and traffic-related injuries), and communicable diseases (7 percent).

Figure 4. Adult (15–60 years) Male Mortality Rates per 1,000 Men



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

Total health expenditure in Ukraine was 7.72 percent of GDP in 2012 (with an EU average of 9.8 percent), or approximately US$299.3 per capita at the average exchange rate in 2012. Government health expenditure accounted for 12.7 percent of total consolidated budget expenditures, or approximately 4.44 percent of GDP, while the rest (over 3.26 percent of GDP) was mainly patients' out-of-pocket expenditures. Most state health financing comes from general taxation, while other sources of revenue, such as insurance, are almost nonexistent. Government money is allocated according to inputs (linked mainly to beds and bed days, with line-item budgeting for health facilities and seniority-based salaries for doctors and nurses), and therefore the majority of public resources go to maintain the existing infrastructure. Also as a result of these allocation criteria, 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 2011, 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 account for more than 40 percent of total health care spending, according to the Household Budget Survey conducted every year, with little variation of its share of total expenditure over the past 15 years. 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. Overall, opportunities to take advantage of less invasive technologies, new standards of care, and more dynamic service modalities are lost, results remain stagnated, and cost increases do not yield commensurate benefits, thus closing a vicious circle. To break such a cycle, public funding needs to be linked to performance and to effective services rendered to patients.

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 (OOP).

Implementation of health sector reforms began in 2011, though cautiously, in three regions and in Kyiv, and was interrupted after the winter 2014 political crisis. The new Government is still in the phase of determining its priorities for action and reforms in this sector. A new Concept of Health Reforms is being finalized. 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 FY14, following a request from the Government, the World Bank started preparation of a new investment lending project in support of health care reforms, the *Serving People Improving Health Project,* which is expected to go to the Board before end of 2014, will spearhead the process of reforms.

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 government 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 an 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 require 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 reform 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 has reduced private investment to below the levels required to modernize the sector.

Examples of ill-advised policy measures include repeated grain export restrictions (most recently in 2010–11, now replaced by export taxes); interventions in domestic food markets to control prices; overregulated food safety controls that are not World Trade Organization (WTO) compliant; weaknesses in contract enforcement that have discouraged commodity financing and risk insurance mechanisms; and an incomplete process of land reform. The Bank, in cooperation with the International Finance Corporation (IFC), is assisting the Government in developing a sound policy framework and investment climate in the sector.

Agricultural Work in the Poltava Region

The establishment of a legal framework for secured land ownership, the development of an efficient registration system, and the assurance of free and transparent land markets are important elements of a policy framework to facilitate agricultural development in Ukraine. While the privatization of land in state and communal farms and enterprises through designated parcels has been under way and state land deeds have been issued since the early 2000s, agricultural land markets are constrained by a moratorium on the sale of agricultural land. Combined with poorly defined ownership rights and weak contract enforcement, this has exacerbated difficulties for small- and medium-sized farms in accessing credit and contributed to suboptimal investment levels.

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 Ukraine's major development partner in improving rural land administration and management. Through the *Rural Land Titling and Cadastre Project* (US$89.7 million, closed in spring 2013), the Bank supported the Government in delivering improved services to landowners through the issuance of land deeds and the establishment of an efficient electronic land cadastre system, which started operation countrywide in January 2013. In the context of this engagement, the Bank has highlighted the importance of ensuring that basic institutional, legal, and regulatory conditions are in place to allow a transparent land market to operate prior to lifting the moratorium. The Bank also supported a public awareness campaign to inform small landholders of their rights to individual title, as well as their land use rights and obligations. Recently, an Institutional Development Fund (IDF) grant has been approved to support evidence-based policy making in Ukraine in the agriculture and land sectors. Activities are scheduled to commence soon.

Transport

The transport sector is important in Ukraine's economy and hence, efficiency improvements 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 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 is changing quickly. Due to steadily increasing commercial and passenger traffic, some strategic sections of the road network are functioning at peak capacities. Yet, substantial portions of the network need upgrading to European technical and safety standards. Ukraine's road safety record remains one of the worst in Europe in terms of road accidents and fatalities.


Road work on a section of the Kyiv-Kharkiv road financed by the World Bank

The World Bank is Ukraine's key partner in the transport sector. The US$400 million *Roads and Safety Improvement Project* is financing (i) an upgrade of a 126-kilometer section of the Kyiv-Kharkiv road; (ii) the elimination of the "accident black spots" throughout the nation's road network; and (iii) technical assistance to strengthen the road agency's capacity in road management and maintenance.

The US$450 million *Roads and Safety Improvement Project 2* started in 2012, with the objective of upgrading the next consecutive section of the Kyiv-Kharkiv road to Poltava and improving the road safety of selected high-risk corridors. The Bank is also engaged in road sector policy dialogue with the Government to assist the country in developing a sound road sector strategy.

Energy

Restructuring and upgrading its energy sector continues to be one of the 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 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 10 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), contributes to institutional capacity building for water and sanitation utilities and supports municipal sector policy work.

The new US$350 million *Urban Infrastructure Project 2* was approved 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 for 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.

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 WBG'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 WBG finances investments in public sector infrastructure and works on improving 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 13 operations for a total amount of US$4.19 billion. Ukraine ended FY14 with a historically high disbursement rate of 31.6 percent. Efforts will continue to accelerate disbursements and ensure quality outcomes from existing investments financed by the World Bank.

Responding to the crisis in Ukraine, in March 2014 the WBG announced that it would provide up to US$3.5 billion to Ukraine by the end of 2014. This lending aims to support 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$1.48 billion, including two large investment operations to improve municipal service delivery and a US$750 million multi-sector DPL that was prepared in record time.

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

The World Bank Group Office in Kyiv

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.

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 recently enacted permits and licenses legislation, the adoption of legislation on certification and standardization, and institutional reform in the area of technical regulations.

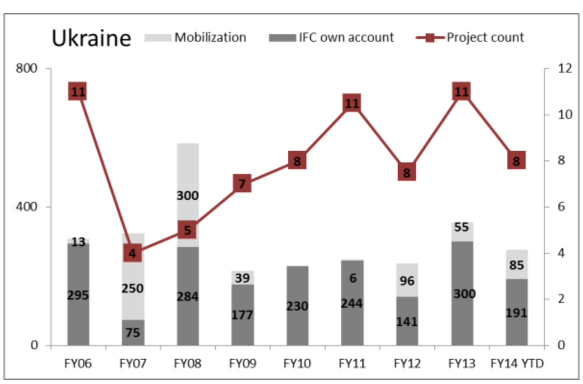
In the infrastructure sector, IFC is considering renewable energy projects and exploring opportunities in waste, transport, and IT services, as well as trying to promote transaction advisory work to support structuring public-private partnership (PPP) transactions and developing proper transparent mechanisms 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: Ukraine is the third-largest IFC exposure in the region after Turkey and Russia and the 12th-largest IFC exposure globally, accounting for about 10 percent of IFC's total outstanding portfolio. As of the end of February 2014, IFC had a committed portfolio of about US$1.06 billion to about 30 clients in Ukraine. In FY13, IFC committed nearly US$300 million in Ukraine for its own account, including US$200 million in the agribusiness sector, and mobilized another US$55 million. In FY14 year to date, IFC had invested US$191 million for its own account and mobilized US$85 million more.

In addition, IFC has a large, long-standing advisory presence in Ukraine, consisting of 10 active advisory projects targeting both crisis response needs and longer-term objectives. IFC advisory services in Ukraine focus on the following priority areas: agribusiness, energy efficiency, and financial markets management.

Figure 5. IFC Annual commitments in Ukraine, FY 06-14



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 outstanding gross exposure in Ukraine totals US$743.5 million.

As the country's long-term development partner, the WBG has been implementing an ongoing investment and guarantee program of about US$3.7 billion, supporting improved basic public service delivery in areas such as water supply, sanitation, power, and roads, and also supporting the private sector.

UKRAINE: URBAN INFRASTRUCTURE PROJECT

Key Dates:

Approved: August 28, 2007
Effective: November 10, 2008
Closing: September 30, 2014

Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD	140.00	132.32	7.68
Total Project Cost	**140.00**		

***Source: World Bank BW data as of September 11, 2014**

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 eight participating cities—Kolomyia, Novo Kakhovka, Drogobych, Cherkasy, Kharkiv, Chernihiv, and Kamyanets-Podilskiy—and in each city, the obtained results 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.
- 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 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 (Expected): October 24, 2014
Closing: October 31, 2020
Financing in million US Dollars*:

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

***Source: World Bank BW data as of September 11, 2014**

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 a 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, Kolomiya, 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, Kolomiya, 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 the Swedish International Development Agency (SIDA) will cofinance institutional strengthening and capacity-building activities.

UKRAINE: DISTRICT HEATING ENERGY EFFICIENCY PROJECT

Key Dates:
Approved: May 22, 2014
Effective (Expected): September 2014
Closing: October 30, 2020
Financing in million US Dollars*:

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

***Source: World Bank BW data as of September 11, 2014**

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 (iii) providing capacity building.

Results expected:

This new project focuses on improving the quality of services and efficiency of 10 Ukrainian district heating utilities that cover about 30 percent of 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, replacement of network pipes, and installation of mini-combined heat and power stations (CHPs), as well as individual heat substations and building-level heat meters.
- Technical assistance and capacity building for participating district heating utilities and the Ministry for Regional Development, Construction, Housing and Communal Services that 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 will be projected lifetime fuel savings of 560 gigawatt hours 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 the 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, 2014
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD Loan	200.0	148.93	51.17
Borrower	38.0		
Total Project Cost	**238.0**		

***Source: World Bank BW data as of September 11, 2014**

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 managed to finalize all tender packages and sign contracts. 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 reduce significantly 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 expected results to be achieved by end-2014 are: (i) reduction in energy not served by 35 gigawatt hours per year (this is a measure of the amount of energy demanded by consumers, but not available because of overload in the system at peak hours); (ii) reduction in transmission losses by 14 megawatts (a measure of power supplied but lost in transmission because of outdated equipment); and (iii) voltage quality improvements in transmission substations (important for the reliability and stability of the power transmission system).

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.

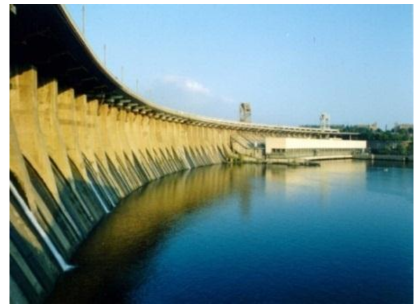
Key Development Partners: included the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), which are also working with UE on transmission projects, and the European Commission (EC), with which the Bank team coordinated closely on policy issues.

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	108.82	57.18
Borrower	274.5		
Total Project Cost	**440.5**		

***Source: World Bank BW data as of September 11, 2014**
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 first six months of 2014, production reached 5.5 terawatt hours, or 6.1 percent in 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 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, 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. It 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: ROADS AND SAFETY IMPROVEMENT PROJECT

<u>Key Dates:</u>
Approved: April 7, 2009
Effective: September 3, 2009
Closing: September 30, 2014
<u>Financing in million US Dollars*:</u>

Financier	*Financing*	*Disbursed*	*Undisbursed*
WB Loan	400.0	359.84	40.16
Total Project Cost	**400.0**		

***Source: World Bank BW data as of September 11, 2014**

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 is 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 95 kilometers (km) are essentially completed. Three of five contracts for road safety interventions, totaling about US$20.7 million, are also essentially completed.

The road upgrading works funded by a World Bank loan on the M-03 road between Boryspil and Lubny improved the road's International Roughness Index to 1.4. The elimination of black spots contributes to the improvement of road safety toward 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 provided to the state road agency UKRAVTODOR focuses 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 to lead to establishing a more efficient management of roads in Ukraine.

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: 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	121.39	328.61
Total Project Cost	**450.0**		

***Source: World Bank BW data as of September 11, 2014**
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 Lubny-Poltava section. It is a logical continuation of the first Roads and Safety Improvement Project, and it is 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 Lubny-Poltava section 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 km/h, while the project provides for an estimated safe speed of 100–140 km/h, or the maximum speed permitted by the traffic rules, 90–110 km/h.

Improving traffic conditions on this road is extremely important because it helps to maintain and develop trade and economic, cultural, tourist, and other transport links between Ukraine and Russia, Belarus, the European Union, and other European countries.

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

The project performs the tasks of (1) bringing the design, technical, and geometrical parameters of road M-03 Kyiv-Kharkiv-Dovzhansky in the Lubny to Poltava section, as well as the bridges, overpasses, and other structures on it, in line with the requirements of applicable regulations, and (2) improving road safety on 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 the maintenance of road networks that UKRAVTODOR is responsible for. 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 the European Union (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: 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	82.65	117.35
Total Project Cost	**200.00**		

***Source: World Bank BW data as of September 11, 2014**
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 have joint 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 EXPORT DEVELOPMENT PROJECT (EDP2)

Key Dates:
Approved: July 27, 2006
Effective: March 20, 2007
Closing: December 31, 2014

Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD	150.5	89.93	60.07
Total Project Cost	**150.0**		

***Source: World Bank BW data as of September 11, 2014**

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

The Project Development Objectives are to (i) serve as a catalyst to support export and real sector growth in Ukraine during the EDP2 implementation period (2006–14) and beyond, by providing medium- and long-term working capital and investment finance to Ukrainian private exporting enterprises; and, (ii) further improve the ability of the Ukrainian banking sector to provide financial resources to the enterprise sector through the greater development of intermediation and the expansion of the sector's depth and breadth through more and better lending products.

The Project addressed some interconnected sector issues by (i) mandating the participating banks to undergo International Financial Reporting Standards (IFRS)-based audits as a prerequisite for participation in EDP2, a relative novelty in Ukraine at the time, and (ii) developing strategic alternatives for the borrower, UkrEximBank, to play the role of a full-fledged export credit and guarantee agency.

Results achieved:

- To date, 49 loans have been approved, covering a variety of industries and geographical regions. Nearly all borrowers under the project permanently and substantially expanded their export volumes.
- Currently, two other commercial banks along with UkrEximBank participate in the project, and several others are in the pipeline of potential participants.
- The EDP2 credit line has been instrumental in providing long-term foreign currency financing to eligible exporters during the economic and financial crisis and ensuing credit crunch.

Key Partners: The Bank team has been working closely with (i) the Ministry of Finance as a guarantor to the World Bank on behalf of Ukraine; (ii) UkrEximBank, the state-owned bank, which serves as the borrower and the main implementation agency under the project, and other participating banks (Megabank, Credit Dnipro Bank), and (iii) the Ministry of Economic Development and Trade as a key coordinator of World Bank projects in Ukraine and a key state policy-making institution that oversees economic and export development in Ukraine.

Key Development Partners include EBRD and the International Finance Corporation (IFC), with which the Bank team coordinates closely in order to provide consistency and complementary approaches.

UKRAINE: PUBLIC FINANCE MODERNIZATION PROJECT

Key Dates:

Approved: January 8, 2008
Effective: October 23, 2008
Closing: June 30, 2015

Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IBRD Loan	50.00	3.94	46.06
Government of Ukraine	15.00		
Total Project Cost	**65.00**		

*** Source: World Bank BW data as of September 11, 2014**

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

The Project Development Objective is to strengthen public financial management in terms of operational efficiency and transparency. This would include elaborating the medium-term budget framework (MTBF); improving the access of decision makers to budget data through the use of an integrated management and information platform; and enhancing the quality and timeliness of reporting on budget execution.

The Project aims to achieve its objectives through strengthening the institutional capacity of the Ministry of Finance (MoF), State Treasury Service of Ukraine (STSU), and State Financial Inspection of Ukraine (SFIU) for implementing public finance modernization (PFM) reform actions; developing new PFM methodologies and procedures; and providing a sustainable PFM solution that creates an integrated, modern, web-based system that comprehensively covers all stages of the budget process, in order to facilitate the reliable and timely exchange of information necessary for transparency, efficient decision making, and financial control. Creation of such a system would be completed by 2015 with support from the World Bank.

Results achieved:

- Budget economic and functional classifications are compliant with Government Finance Statistics 2001, resulting in better informed policy making and improved international comparability.
- Proposed budgets now are published in the same detail as executed budgets, as opposed to just a summary of proposed and executed budgets, leading to the improved transparency of the budget process.
- The MTBF for 2012–14 was elaborated and approved, and since 2010, budget laws have been approved consistently with the MTBF, enabling the use of the budget as a policy instrument.
- Seventeen International Public Sector Accounting Standards (IPSAS) were made compliant and were revised, and approved by the MoF and STSU as part of the implementation of the Accounting Reform Program (aimed at transition to accrual-based accounting compliant with IPSAS until 2015), which allows for the production of financial statements that are understandable and comparable across countries.

Key Partners: Ministry of Finance of Ukraine; State Treasury Service of Ukraine, and State Financial Inspection of Ukraine.

Key Development Partners: include the EU, the Netherlands Ministry of Finance, USAID, the U.S. Treasury, the French Treasury, SIDA, the United Nations Development Programme (UNDP), and the International Monetary Fund (IMF).

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 September 11, 2014**

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.

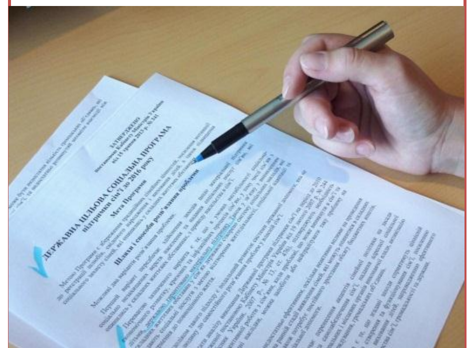
Expected results:

- 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 the 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 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: not effective yet
Closing: October 1, 2020
Financing in million US Dollars*:

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

***Source: World Bank BW data as of September 11, 2014**

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 program 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 number 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, 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.

UKRAINE: MRIYA AGROHOLDING

Key Dates:
Approved: December 23, 2013
Signed: December 27, 2013

IFC financing (million US Dollars):

Financier	*Amount*	*Fiscal Year*
IFC	$65	2014

Founded in 1992, Mriya Agroholding is one of the leading Ukrainian agricultural producers, with about 300,000 hectares of land and a production of over 1 million tons of grains (in 2012). IFC's value added stems from its ability to engage strategically with Mriya by providing long-term capital funding, technical expertise on sustainable production and resource efficiency, and global knowledge in the areas of corporate finance and environmental and social standards.

Project Development Objective
IFC's financing will support Mriya in its plans to expand, improve agricultural land productivity, and increase sustainable production of food crops, contributing to global food security.
The expansion of farming operations will help create jobs in Ukraine's impoverished western regions where the bulk of Mriya's operations is concentrated.

Key Expected Results:

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

- Expansion of a large-scale modern farming operation, which will improve land productivity and have a demonstration impact on other neighboring companies
- Support to a viable economic activity, jobs creation, and better employment standards in some of the poorest frontier rural regions of Ukraine (Ternopil, Ivano-Frankivsk, Lviv, Chernivtsi, and Khmelnitsky regions)
- Enhancement of environmental and social management and improvement of waste management and resource efficiency

Key Partners: Mriya Agroholding.

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 Sberbank Europe AG, ING Bank	15.0 65.0	2014

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 1, 2012 **Project closure**: January 1, 2015	**Ukraine Resource Efficiency Program** **Project start**: January 10, 2010 **Project closure**: July, 2015
Ukraine Agri-Insurance Development Project **Project start**: January 1, 2007 **Project closure**: June 30, 2015	**Sustainable Development of SME Farmers** **Project start:** July, 2013 **Project closure:** July, 2017
Agri-Finance Project **Project start**: November 1, 2010 **Project closure**: January 1, 2015	**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 by improving their food safety and resource-efficiency practices and developing local supply chains.

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.

Ukraine Cleaner Production 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: IFC's advisory interventions helped transform the regions of Kherson and Vinnitsa into key vegetable and fruit producers boosting rural development; Vinnitsa's region doubled fruit production and introduced sustainable fruit growing technologies, and more than 2,500 fruit farms were reached;
- reducing risk and vulnerability and facilitating agricultural entry and exit;
- supporting legislation to cancel an obligatory requirement to register export contracts, saving US$11 million to the sector; helping enact regulations that reduced the time required to connect to the grid;
- 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, 2015

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 is also working with two pilot cities—Vinnitsa and Lviv—to increase awareness about residential energy-efficiency improvements.

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: $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 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 consist of 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 a focus on growth, competitiveness, and job creation, improvements in the business climate, and the promotion of domestic investment and FDI 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: Can-Pack (Ukraine) Ltd.

Fiscal year: 2009

Guarantee holder: Can-Pack S.A.

Investor country: Poland

Gross exposure: US$4.0 million

MIGA has issued a US$4.0 million guarantee to Can-Pack S.A. of Poland covering its new investment in Can-Pack (Ukraine) Ltd. The new investment will be in the form of equipment and raw materials, to modernize an existing production line. MIGA is currently providing coverage to Can-Pack S.A totaling US$49.4 million against the risks of transfer restriction, expropriation, and war and civil disturbance.

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 project involves the replacement of old can-necking equipment, which is producing 50-centiliter (cl) beverage cans, with new cans and extending the line capability with machines and tooling for the production of 33-cl cans. It also involves the transfer of technical know-how on operating the new equipment into Ukraine.

The plant has been operating since 2003. Can-Pack's decision to upgrade the equipment to produce the 33-cl aluminum beverage cans in Ukraine is driven by an increase in demand from soft drink companies, such as Coca-Cola and Pepsi, as well as from local and regional breweries. The demand for 33-cl cans is also growing from neighboring countries, especially Russia, Kazakhstan, and Belarus. The production of 33-cl cans in Ukraine will allow Can-Pack to maintain its competitiveness in the expanding beverage market in Ukraine in particular, and the region in general. Can-Pack is currently addressing the need by procuring the 33-cl cans from Poland, in turn incurring high transportation costs, which impact its competitiveness.

MIGA's continuing support to Can-Pack (Ukraine) is consistent with the World Bank's Group Country Partnership Strategy for Ukraine for 2008–11. Enhancing technological updates in the manufacturing sector and promoting the modernization of production align with the first pillar of the CPS—sustaining growth and improving competitiveness.

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 an 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.