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Report Number: ICRR0024063

1. Program Information

Country
Ukraine

Practice Area (Lead)
Macroeconomics, Trade and Investment

Programmatic DPF

Planned Operations
0

Approved Operations
0

Operation ID
P172597

Operation Name
Economic Recovery DPL

L/C/TF Number(s)
IBRD-91380

Closing Date (Original)
30-Jun-2021

Total Financing (USD)
350,000,000.00

Bank Approval Date
26-Jun-2020

Closing Date (Actual)
30-Jun-2021

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	350,000,000.00	0.00
Revised Commitment	350,000,000.00	0.00
Actual	350,000,000.00	0.00

Country
Ukraine

Practice Area (Lead)
Macroeconomics, Trade and Investment

Operation ID
P177931

Operation Name
SECOND ECONOMIC DEVELOPMENT POLICY LOAN (P177931)

L/C/TF Number(s) IBRD-91380,IBRD-93230,IBRD-93660,IBRD-93670,IBRD-93680,TF-B8350	**Closing Date (Original)** 31-Jan-2023	**Total Financing (USD)** 1965999000.19
Bank Approval Date 17-Dec-2021	**Closing Date (Actual)** 31-Jan-2023	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	838,750,000.00	98,496,075.00
Revised Commitment	838,750,000.00	98,496,075.00
Actual	818,989,656.09	1,147,009,344.10

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The program development objectives (PDOs) of the Ukraine Economic Recovery Development Policy Loan (ERDPL) series (as stated in the ICR, para. 16) and the program documents (PDs) were to: (i) foster de-monopolization and anti-corruption institutions; (ii) strengthen land and credit markets; and (iii) bolster the social safety net, (PD1, para. 27, indicated that the latter was intended "to cushion the impact of the crisis on the vulnerable elderly population."). The PDOs did not change between the first and second DPLs. For the purpose of this ICRR, the PDOs are taken as:

- **PDO1**: To foster de-monopolization and anti-corruption institutions.
- **PDO2**: To strengthen land and credit markets.
- **PDO3**: To bolster the social safety net.

b. Pillars/Policy Areas

The Pillars as stated in the PDs were identical to the PDOs. For the purpose of this ICRR, the Pillars and Policy Areas (as indicated in the ICR, paras. 18-20 and 34) are represented as follows:

- **Pillar 1: Foster de-monopolization and anti-corruption institutions:**

  - Gas sector (separate transmission and production functions);
  - Infrastructure (overhaul Law on Concessions);
  - Inland waterways (establish an open regulatory framework).
  - National Agency on Corruption Prevention (NACP; enhance independence).
- **Pillar 2: Strengthen land and credit markets:**
  - Land sales (legal framework);
  - Financial market reforms (to resolve non-performing loans [NPLs]);
  - Credit guarantee facility (for credit-constrained farmers).
- **Pillar 3: Bolster the social safety net:**
  - Reform the pension system.

c. Comments on Program Cost, Financing and Dates

Originally designed as a standalone operation, the ERDPL was split into a series of two after the decision meeting (27 February, 2020) in response to disruptions from the COVID-19 pandemic, which also motivated seeking additional financing to cope with the adverse budgetary and social protection consequences (ICR, para. 66). The First ERDPL (P172597) was an IBRD loan of US$350 million, which was approved 26 June, 2020 but not effective until a year later (25 June, 2021), whereupon it was fully disbursed, and it closed as expected on 30 June, 2021. The Second ERDPL (P177931) consisted of IBRD loans of US$349.5 million (approved 17 December and disbursed by 25 December, 2021) and a Supplemental FREE DPL (Financing of Recovery from Economic Emergency; approved on 7 March, 2022, and disbursed two days later) totaling US$489 million, bringing total IBRD financing to US$1.19 billion. Actual disbursements under ERDPL2 amounted to US$ 818,989,656 out of US$ 850,000,000 approved, with the difference due to trust fund fees and currency variations.

The World Bank (WB) mobilized supplementary support from development partners amounting to US$1,902 million, consisting of (ICR, Annex 5, Table 5.2):

- US$1,168 million through the FREE Multi-Donor Trust Fund (from the USA, UK, Norway, Denmark, Austria, Latvia, Lithuania, and Iceland), exceeding the ICR reported figure of US$1,147 million due to waiver of trust fund fees;
- US$600 million parallel budget support from Japan;
- US$134 million in bilateral guarantees from The Netherlands and Sweden.

3. Relevance of Design

a. Relevance of Objectives

Country Context

Ukraine’s transition toward a market economy over the last three decades has been constrained by a heavy state presence and weak institutions (ICR, para. 1). State control of productive assets through over 3,600 state-owned enterprises (SOEs) and vertically-integrated monopolies dominated what was intended to be a competitive economic space. Property rights were vulnerable to corruption and a weak judicial system. Vested interests delayed reforms and distorted markets, as did the 20-year moratorium on land sales and subsidies for natural gas.

During the five years preceding preparation of the ERDPL series, the Government of Ukraine (GoU) had undertaken considerable reforms to begin addressing these issues and to “reinforce macroeconomic stability and bolster the foundations of economic growth". The economy grew by 3.3 percent in 2018-2019 and public and publicly guaranteed debt declined to 50 percent of GDP (PD1, para. 2). Preparation of a standalone ERDPL to take advantage of these positive developments to advance the reform process was interrupted by the COVID-19 pandemic and the consequent threats to economic growth, budgets, health and social protection, posing risks to implementation and achievement of the intended objectives. In order to accommodate delays and the need to raise substantial complementary funding, the ERDPL was split into a series of two operations, with the second complemented by supplemental funds and parallel support from development partners (see section 2.c above).

Relevance of Objectives

The redesigned series “prioritized support for critical reforms to enable a recovery of investment and economic activity once the COVID-19 pandemic subsided, as well as to bolster the social safety net with a focus on the elderly” (ICR, para. 8). The objectives as stated were directly relevant to the main areas of constraints on progress toward a competitive market economy that is amenable to private investment. PDO1 was oriented toward the burdens of state ownership and corruption. PDO2 focused on two important, highly constrained markets (land and credit). PDO3 addressed weakened ability of social safety nets to enable people, especially the elderly, to cope with COVID-19 and other shocks. These objectives were relevant to the broader objective of accelerating growth through a more competitive, market-oriented economy conducive to private investment. Nevertheless, PDO3 was overly broad with respect to the limited focus of the PA and associated RI on indexation of pension benefits.

The objectives were well aligned with the Ukraine Country Partnership Framework (CPF) for FY 17-21, which focused on: “(i) making markets work; (ii) fiscal and financial sustainability; (iii) efficient, effective, and inclusive service delivery; and (iv) better governance, anticorruption, and citizen engagement” (PD1, para. 46). They also supported the priorities of the 2017 Systematic Country Diagnostic and the 2019 study on “Ukraine Growth: Faster, Lasting, Kinder,” and were consistent with the World Bank (WB) COVID-19 Crisis Response Approach Paper (PD2, para. 4). WB involvement was important to help deal with opposition from vested interests, as well as the complexity and difficulty of the reforms (ICR, para. 8).

The series supported the commitment of the Government that came into power in 2019 to undertake reforms needed to accelerate growth (its 2019-24 Action Program aspired to 5-7 percent annual growth over five years): increase foreign direct investment, develop infrastructure, create jobs and reduce poverty (PD2, para. 3). The ERDPLs supported its stated priorities of “establishing land markets, de-monopolization, and strengthening institutions of anticorruption and rule of law.”

b. Relevance of Prior Actions

Rationale

The series had 12 PAs with a total of 15 specific actions. Of the five PAs in ERDPL2, three followed through on actions initiated in ERDPL1; four of the ERDPL1 PAs had no specific follow-through in ERDPL2. The introduction of PAs in two new action areas in ERDPL2 reflected the last-minute decision to break the program into a series of two operations, in part to accommodate delays occasioned by the COVID-19 crisis. Five PAs were highly satisfactory in terms of relevance to objectives, and none unsatisfactory.

Table 1: Objectives and Prior Actions (PAs) for Ukraine Economic Recovery Development Policy Loan (ERDPL) Series

PAs under DPL1	PAs under DPL2
PDO1: Foster de-monopolization and anti-corruption institutions	
PA1: Completed the unbundling of the state-owned gas transport system from Naftogaz on January 1, 2020 through: (i) the enactment of Law #264-IX on Unbundling; and (ii) the transfer of state-owned gas transport system's assets from the balance sheet of UTG to Gas TSO LLC.	
PA2: Enacted Law #155-IX on Concession to enhance the legal framework for attracting private investment in infrastructure and ensuring transparency in concession projects.	
	PA3: The Borrower has enacted Law # 1054-IX dated December 3, 2020 "On Inland Water Transport", and duly published in the Borrower's Official Gazette on January 9, 2021, establishing an open regulatory framework and enabling non-discriminatory access of operators to inland waterways.
PA4: Enacted [i] Law # 140-IX to strengthen the governance of the National Agency of Corruption Prevention (NACP) and [ii] Law # 263-IX to restore liability for illicit enrichment and enable civil forfeiture of unjustified assets.	
PDO2: Strengthen land and credit markets	
PA5: Enacted [i] Law # 552-IX to enable the sale of agricultural land and the use of land as collateral and [ii] Law # 554-IX to strengthen transparency by improving access to cadastral data and links between the cadaster and registry.	**PA6:** The Borrower has enacted Law #1423-IX dated April 28, 2021 "On amendments to some legislative acts of Ukraine to improve the system of management and deregulation in the field of land relations", and duly published in the Borrower's Official Gazette on May 26, 2021, streamlining land transfer procedures and decentralizing land management, which simplifies procedures to create, transfer, and use land parcels; and transfer the ownership and administration of state

	land from the Geocadaster to local authorities. **PA7:** The Borrower has enacted Law # 1444-IX dated May 18, 2021 "On modification of some legislative acts of Ukraine concerning sale of the land plots and acquisition of the right of their use through electronic auctions", and duly published in the Borrower's Official Gazette on June 25, 2021, regulating local state land use, including mandating electronic auctions for state land sales.
PA8. Issued NBU prudential regulations #49 and #52 on write-offs for fully provisioned NPLs and approved Cabinet of Ministers of Ukraine Resolution # 281 to enable state-owned banks NPL resolution through conventional tools including restructuring and sale with haircut on principal, as well as write-offs.	
PA9: Enacted Law # 79-IX to enhance the regulatory framework for nonbank financial institutions by abolishing the National Financial Services Commission and assigning the regulatory functions to the National Bank of Ukraine and National Securities and Stock Market Commission.	
	PA10: The Borrower has enacted Law #1865-IX dated November 4, 2021 "On the Fund for the Partial Guarantee of Loans in Agriculture" and duly published in the Borrowers' Official Gazette on November 23, 2021, creating affordable and effective financing instruments for small farmers through the establishment of a partial credit guarantee facility.
PDO3: Bolster the social safety net	
PA11: Approved Cabinet Resolution # 251 to set the date and rate for the statutory pension indexation in 2020 and bolster the purchasing power of the pension benefit.	**PA12:** The Borrower, through its Cabinet of Ministers, has approved the Budget Declaration for 2022-2024 and submitted it to the Verkhovna Rada of Ukraine through Resolution No. 548 dated May 31, 2021 "On the Budget Declaration for 2022-2024" requiring indexation of pensions for all categories of retirees not later than March 1st of each year from 2022 to 2024.

Source: ICR, Section II.

The 12 PAs (7 in ERDPL1 and 5 in ERDPL2) had a total of 15 distinct actions/subactions.

PDO 1: Foster de-monopolization and anti-corruption institutions

Gas sector

PA1 directly addressed the monopolistic problem of locating both gas production and transmission within the state-owned Naftogaz, which limited the scope for independently generated gas and transmission (ICR, para. 31). “The vertically integrated structure of gas transit and production…had been a significant roadblock in advancing negotiations on the new long-term gas transit agreement and in attracting investment in the transport network” (PD1, para. 29). The unbundling of gas transmission from Naftogaz and transfer of assets to an independent Transmission System Operator (TSO) involved a series of steps from September 19, 2019, to January 1, 2020 (PD1, para. 30), and was essential to incentivize investment both by the two independent state-owned entities and by potential private competitors in this key sector. **Relevance: PA1**: Highly Satisfactory (HS).

Infrastructure

PA2 was highly relevant to overcoming disincentives to the private investment needed to help overcome Ukraine’s poor trade and transport infrastructure (ranking 119th among 160 countries on the quality of trade and transport infrastructure in the World Bank’s 2018 Logistics Performance Index 2018; PD1, para. 31). A more transparent and competitive procedure for awarding concessions was important to move away from politically-connected allocations and to enable project financing (ICR, para. 33). Incentivizing private infrastructure investment supported both de-monopolization and anti-corruption objectives. **Relevance: PA2**: Highly Satisfactory (HS).

Inland waterways

PA3 was needed to address the regulatory restrictions that had constrained usage of and investment in inland waterways. Usage of inland waterways had fallen from 66 to 4 million tons (PD2, para. 34), only 3 percent of Ukraine’s major exports of grain, “even though the environmental and monetary costs of this type of transport were lower than for rail and road” (ICR, para. 34). Dominance of a single company and anticompetitive permit requirements for foreign vessels posed major barriers (PD1, para. 34). New regulations under PA3 supported the objectives of de-monopolization and facilitating private investment in transport infrastructure to strengthen economic recovery and growth. **Relevance: PA3**: Highly Satisfactory (HS).

National Agency on Corruption Prevention (NACP)

PA4 strengthened the capacity of NACP – a key anti-corruption institution established in 2016 – to tackle the negative effects of corruption, vested interests and state capture on Ukraine’s investment and growth prospects. Asset declarations and penalties for incorrect information and illicit enrichment were key deterrents, but implementation (and indeed effectiveness of ERDPL1) had been delayed by a Constitutional Court ruling (ICR, para. 35). Despite establishment of three anti-corruption institutions since 2014, failure to achieve any convictions by end-2018, despite “widespread suspicions of illicit enrichment based on asset declarations and officials’ lifestyles,” had led to public outcry (PD1, para. 33). Furthermore, “the governance of NACP was compromised at an early stage through political interference and ineffective leadership.” Legislative actions under PA4 to strengthen governance of the NACP and restore penalties were directly relevant to the anti-corruption objective – though the series contained no further actions to support implementation steps needed to actually achieve that objective. **Relevance: PA4**: Satisfactory (S).

PDO 2: Strengthen land and credit markets

Land Sales

PA5 was highly relevant to unblocking the major constraint on agricultural investment and productivity imposed by a 20-year moratorium on the sale of government-owned land plots. This moratorium had “undermined the security of land tenure and incentives to undertake productivity enhancing investments such as irrigation and manage the land in a sustainable manner,” resulting in much lower yields per hectare than other European countries and limiting the key contribution of Ukraine’s large arable land endowment to economic growth and exports (PD1, para. 36). Implementation of the new law was designed first to allow small individual purchases (supported by PA10 to enhance access to credit) before opening up to legal entities. The PA also covered complementary legislation needed to ensure “free and open access to the cadaster data and to mandate interoperability between the cadaster and registry, which is important to reduce manipulation of ownership records and opportunities for corruption” (PD1, para. 38). The legislative action was clearly the dominant factor toward the objective of an open, transparent market for land, with implementation supported by further actions in ERDPL2. **Relevance: PA5**: Highly Satisfactory (HS).

PA6 and **PA7** in ERDPL2 provided safeguards to strengthen achievement of objectives for land reform by enhancing data security and transparency, automating data transfer between databases, and mandating electronic auctions. These measures made a major contribution to achieving the objective by “restricting discretionary handouts of state land by local authorities and preventing multiple registrations and raider attacks” (PD1, para. 38). **Relevance: PA6**: Satisfactory (S); **PA7**: Satisfactory (S).

Financial market reforms

PA8 was an important step to carry forward financial sector consolidation and reforms that were initiated following the 2014-15 financial crisis, which stabilized the system but left “a high share of legacy [non-performing loans (NPLs) concentrated in fewer, and especially state-owned banks” (SOBs), and disincentivized writing off or discounting NPLs (ICR, para. 39). The new prudential regulations issued by the National Bank of Ukraine (NBU) under PA8 enabled write-offs for fully-provisioned NPLs and resolution through conventional methods. This action to enable resolution of NPLs was especially important to give banks space to cope with an expected increase in NPLs due to the impact of COVID-19 (PD1, paras. 40-41). **Relevance: PA8**: Satisfactory (S).

PA9 was highly relevant to redressing the weak supervision of non-bank financial institutions (NBFIs), including insurance, pension funds, non-bank lenders, and credit unions, which had resulted in “significant fraud and money laundering” and inhibited the important potential contribution of NBFIs in financing economic growth (PD1, para. 42). Despite having responsibility for supervising some 2,200 institutions, the existing NBFI regulator was considered “weak, non-functional, lacking both independence and capacity” (PD1, para. 42). The legislation under PA9 “abolish[ed] the NBFI regulator and split its functions between the National Bank of Ukraine and the National Commission for Securities and Stock Market,” which were more capable and credible regulatory authorities. **Relevance: PA9**: Highly Satisfactory (HS).

Credit guarantee facility

PA10 was designed to complement PA5 by providing guarantees that would enable small farmers to access financing for land purchase, using land as collateral. Although small farmers produce more than half of Ukraine's agricultural output, they "are significantly credit constrained because banks consider them high risk" (PD2, para. 42). The action was an appropriate, if modest step toward improving the conditions for agricultural lending. However, the results chain to achieving a significant increase in credit to small farmers via guaranteed bank loans was unclear in that "most of them do not have access even to basic banking services" and that Ukraine had virtually no loans secured by agricultural land (PD2, para.42). Since banks often do not accept agricultural land as collateral, evidence was needed that they would do so in Ukraine. In addition, further actions and support would be needed to implement the long process of "registering, capitalizing and licensing the Fund as well as passing internal bylaws, selecting Supervisory Board and top management, staffing it, and signing framework agreements with participating financial institutions" (PD2, para. 43). Furthermore, the expectation that (after initial capitalization by the state) it would "run on a self-sufficient basis in line with international best practice, with guarantee fees covering operational expenses of the fund" and therefore not need further support was highly optimistic (in light of experience worldwide with agricultural credit guarantee funds, which was not discussed) and, at best, would compromise the affordability objective if the guarantees had to be priced at commercial rates. **Relevance: PA10**: Moderately Satisfactory (MS).

PDO3: Bolster the social safety net

PA11 and **PA12** were justified in PD1 (para. 43) and PD2 (para. 45) mainly in terms of cushioning the impact of the COVID-19 crisis, especially on the elderly. The actions included an initial acceleration of adjustment of pensions for inflation and institutionalizing such adjustments via indexation in the future, which were relevant to maintaining the purchasing power of the elderly – though not of employees and others who lost their sources of income under pandemic restrictions. While the pension system is Ukraine's largest social program, the ICR (paras. 41-43) noted that the exclusive focus on pensions, the modest initial income boost, and the lack of evidence on the expected benefits weaken the results chain from the supported actions to the objective of a substantially stronger safety net. **Relevance: PA11**: Moderately Satisfactory (MS); **PA12**: Moderately Satisfactory (MS).

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

The nine results indicators (RIs) were generally relevant to implementation of associated PAs, though not always to achievement of the desired outcome or objective (which rendered three of them Moderately Unsatisfactory). Two of them suffered from lack of data available for continued monitoring.

PDO1: Foster de-monopolization and anti-corruption institutions

RI1 monitored implementation of PA1 in terms of gas transit revenues flowing to the new independent entity created as part of the unbundling of gas production and transport, under the new transit agreement between

Naftogaz and Gazprom that had been enabled by the action (PD1, para. 30). The definition and data were clear. The result was attributable to the action and related to the objective of de-monopolization. The intended result of increased investment in the transport network was not captured, but this outcome was likely beyond the time frame of the series. **Relevance: RI1**: Highly Satisfactory (HS).

RI2 tracked whether two tenders made under the old concessions law were signed under the new law enacted under PA2, but that result "lacks attribution" (ICR, para. 49). PD2 (para. 32) argued that signing existing tenders related to the new law in that it "made commercial and financial closing possible by creating necessary conditions for project financing by lenders;" but it is unclear why tenders would have been made under the old law if financing was not already available. While tracking progress of new private investment is relevant to the PA and the objective of de-monopolization, measurement of <u>increased</u> tenders under the new law would have been more convincing in terms of the intended result and attribution to the PA (ICR, para. 42). Nonetheless, implementation of the two "first-ever PPP contracts in the ports sector" was directly relevant to the objective of "increased private sector participation in infrastructure investment" and to implementation of PA 3, since the ports in question were on key river arteries (PD2, para. 33). **Relevance: RI2**: Moderately Unsatisfactory (MU).

RI3 was directly relevant to implementation of PA3's measures to remove regulatory constraints on shipments via Ukraine's cost-effective inland waterways and to the objective of de-monopolization as well as the broader objective of economic recovery and growth. RI 3 complemented RI2 in that the two port modernization projects were on the inland waterways and thereby facilitated implementation of PA3. Data definition and availability were sound, and the results chain well defined and attributable to the action. **Relevance: RI3:** Highly Satisfactory (HS).

RI4 responded to public concerns that had motivated PA4 to both strengthen governance of NACP and restore penalties. "Detailed verifications of asset declarations based on a more risk-sensitive approach with reduced discretion" was attributable to implementation of PA4 and expected to "help increase accountability and bolster investors' confidence," consistent with the anti-corruption objective of PDO1. Thus the results chain was clear (ICR, para. 44), and the required data were clear and available. Nevertheless, it did not capture the ultimate outcomes of increased convictions and reduced corruption. **Relevance: RI4:** Satisfactory (S).

PDO 2: Strengthen land and credit markets

RI5 directly captured the impact of implementing PA5 (Law #552-IX) on purchases of agricultural land and PA6 on streamlining the system, representing an important "precondition" toward the objective of stronger land markets (ICR, para. 44). However, it did not capture the second part of PA5 [Law #554-IX] relating to data transparency and linkage, nor PA7 regarding electronic auctions. RI 5 was also relevant to achieving the intermediate objectives of "security of land tenure and incentives to undertake productivity enhancing investments such as irrigation" (PD1, para. 36). Data definition and availability were clear. **Relevance: RI5:** Satisfactory.

RI6 was intended to track the ability of small farmers to obtain credit due to the partial credit guarantee facility established under PA10, as one of the preconditions toward the objective of better-functioning markets for credit and agricultural land. However, it only monitored whether any loan had been issued backed by the facility, rather than the number and/or value of loans (or at least guarantees) issued, which would have been a stronger indicator. Nor did it track whether land purchases were actually effected. **Relevance: RI6:** Moderately Unsatisfactory (MU).

RI7 directly measured the initial impact of PA8 on cleaning up the existing NPLs of state-owned banks, consistent with the objective of strengthening credit markets and opening up space to deal with the COVID-19 crisis. However, it was static in that it referred only to the pre-2020 NPLs and there was "no publicly available data that allows to follow this indicator" (ICR, para. 46), either with respect to the pre-2020 portfolio or regarding resolution of subsequent NPLs. PD2 (para. 38) alleged "strong progress in the reduction of NPLs at SOBs" without providing evidence. A supplementary indicator of on-going NPLs would have been desirable. **Relevance: RI7:** Moderately Satisfactory (MS).

RI8 related only to the action plan for implementing the new law under PA9, representing only the next step. It did not track whether regulatory supervision of NBFIs had in fact been strengthened, or even whether the expected reassignment of responsibilities had taken place. Unfortunately, ERDPL2 had no follow-up actions or supplementary indicator; PD2 (para. 38) stated only that the reforms were being "supported by continued dialogue and technical assistance by the World Bank." Thus, while the RI indicated whether the next step toward implementation had been taken, it did not adequately reflect actual progress toward the objective. **Relevance: RI8:** Moderately Unsatisfactory (MU).

PDO3: Bolster the social safety net

RI9 was relevant to PA12, which followed through on PA11 (which concerned only 2020) to make indexation of pensions mandatory "not later than March 1st of each year from 2022 to 2024," consistent with the objective of bolstering the safety net. Besides protecting purchasing power, annual indexation supported the objective by making this adjustment more predictable. The RI, however, did not include a specific sub-indicator to monitor achievement of the objective of at least 65 percent of the beneficiaries being women (the ICR, para. 46, states that "gender disaggregated data are not readily available"). Additional indicators would have been desirable to more fully monitor achievement of the broad objective to "bolster the social safety net." **Relevance: RI9:** Moderately Satisfactory (MS).

Table 2: Results indicators by Objective and PAs; baseline and target values; status and achievement

Results indicator (RI)	Associated PAs	RI Relevance	Baseline (2019)	Target (2022)	Actual (year)	Actual as % of targeted change	RI Achievement rating
PDO1: Foster de-monopolization and anti-corruption institutions							
RI1: The share of gas transit revenues flowing in a transparent manner from Naftogaz to the new independent Gas TSO, based on the tariff set by the NEURC.	1	HS	0%	100%	100%	100%	High
RI2: Number of port concession projects signed with private investment mobilized through project financing by lenders.	2	MU	0	2 (2021)	2 (2021)	100%	[Substantial]
RI3: Number of voyages by ships (including cargo) on Dnipro River increases by	3	HS	11,938	14,300	15,840	165%	High

about 20 percent.							
RI4: Number of full verifications of high risk declarations selected using prioritization criteria, assigned automatically to staff, and implemented using an improved methodology.	4	S	0	1,500	1,026 (2021)	68%	Substantial
PDO2: Strengthen land and credit markets							
RI5: Area of agricultural land previously under moratorium sold/purchased by eligible individuals	5-7	S	0 ha	150,000 ha	100,314 (2021) +69,242 (2022) +114,135 (2023)	67% 113% 189%	High
RI6: Loans are issued to small farmers and backed by Partial Credit Guarantee (PCG) facility	10	MU	No	Yes	No	0%	Negligible
RI7: Gross Pre-2020 NPL Portfolio of State-Owned Banks	8	MS	UAH 397 bn	< UAH 300 bn	UAH 253.98 bn	147%	[High]
RI8: NBU and NSSMC adopt action plan on reshuffling supervisory regimes for insurance, credit unions, pension funds, and other NBFIs.	9	MU	No	Yes	Yes	100%	[Substantial]
PDO3: Bolster the social safety net							
RI9: Pension benefits increase in line with the indexation formula within the first half of each calendar year, allowing adequate support for pensioners, of which at least 65 percent are women.	11-12	MS	No	Yes 65% women	Yes (2022) (2023) n.a.	100% n.a.	[Substantial]

Source: ICR, Section II.

Note1: RI achievement ratings note achievement of the targeted change for the RI. RI achievement ratings in brackets reflect ratings that may have been adjusted based on weak relevance of the results indicator (discussed in efficacy section).

Note 2: There is no RI for PA7.

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Foster de-monopolization and anti-corruption institutions

Rationale

Full achievement of the target for **RI1** indicated that the independent Gas TSO was receiving transit revenues under the new Gas Transit Agreement with Gazprom in a transparent manner (PD2, footnote 7), consistent with the objective of independence of the companies responsible for production and for transmission. Nevertheless, their fiscal independence was undermined somewhat by a transfer of UAH 27 billion of gas transmission to Naftogaz in September, 2021, in order to “protect households from the impact of the severe global energy [price] shock” (ICR, para. 46). While this was considered a one-time emergency measure that was not expected to affect the independence of future decision-making, it was “indicative of structural challenges related to rules-based, transparent and predictable financing of public service obligations” (PD2, para. 7). **Rating: RI1:** High.

The target for **RI2** was achieved in that two tenders for port concession projects were signed under the new law. While this represented progress toward the objective of private investment to help de-monopolize the sector, since the tenders were already in progress, the MU rating for the indicator in terms of attribution to the action and attraction of new investors triggers a downgrade to Modest achievement. **Rating: RI2:** Modest.

RI3 was exceeded, and the steadily increasing ship traffic on Dnipro River signaled strong progress toward the PDO of de-monopolization and the broader objective of growth of exports and the economy. The ICR (para. 50) reported further progress in the form of a Cabinet resolution to expand navigable inland waterways, including dredging and waterway works. **Rating: RI3:** High.

RI4 was substantially (68 percent) achieved, despite a temporary suspension of declarations and verification from February 2022 to September 2023 due to enactment of martial law following the Russian invasion of Ukraine (ICR, para. 51). The verifications responded to key aspects of the legislation, including high positions, response to complaints, use of digital tools, and lifestyle monitoring by NAPC. Reinstatement of asset declarations in 2023 included public access. **Rating: RI4:** Substantial.

Rating

Satisfactory

OBJECTIVE 2

Objective

Strengthen land and credit markets

Rationale

RI5 was fully achieved by the 2022 target year and exceeded in 2023, despite temporary suspension of the land market in February-April 2022 (ICR, para. 53). Progress toward the objective of strengthening land markets continued with opening to legal entities in January, 2024. **Rating: RI5:** High.

RI6 was not achieved in that no loans had been issued backed by a partial guarantee, since the Partial Guarantee Fund was finally launched only in January, 2024 (18 months behind schedule). Nonetheless, gradual progress had been made toward implementing PA10 in that the Fund was established, the necessary capital was budgeted and half transferred as of January, 2024, and the first guarantee issued in February, 2024 (ICR, para. 54). A WB investment operation (P180242) will provide further support. While this additional evidence indicates modest progress in implementation, it remains to be seen whether the guarantee will substantially alter the reluctance of banks to lend to small farmers and enable the objective of land purchases to be achieved. **Rating: RI6:** Negligible.

RI7 was exceeded in that the pre-2020 NPL portfolio of the four SOBs fell below the target. The ICR (para. 55) reported that the NBU undertook further supervisory actions and that the NPL ratio for the sector continued to decline, consistent with the objective of strengthening the credit market, although no data were given. While data from the National Bank of Ukraine show that the overall NPL ratio of Ukraine's banks had fallen from 55 percent to 27 percent as of March 2022, it had risen again to 38 percent as of January 2023, three-quarters of it in state-owned banks. Due to the MS rating of relevance of RI7, the achievement is lowered to Substantial. **Rating: RI7:** Substantial.

RI8 was nominally achieved, but the ICR (para. 56) reported that further steps toward implementation "are still under development and the policy action has not been fully implemented." An MU rating for the RI triggers a downrating to Modest. **Rating: RI8:** Modest.

Rating

Moderately Satisfactory

OBJECTIVE 3

Objective

Bolster the social safety net

Rationale

RI9 was nominally achieved in that pension benefits were indexed in 2020, 2021, 2022 and 2023 (ICR, para. 84) with a further adjustment planned for 2024 (TTL). While the ICR reported a decrease in the share of pensioners among the poor, data were lacking on the extent to which the overall objective of strengthening the social safety net was achieved in terms of the predictability and benefits of indexation. More importantly, no data were available to assess progress toward the sub-objective of women constituting at least 65 of beneficiaries. Absence of the latter data warrants a downgrade of the achievement rating to Substantial. Further, an MS relevance rating, contributes to a further downgrade of the achievement to Modest. **Rating: RI9:** Modest.

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

One PDO is rated Satisfactory, two Moderately Satisfactory. Three of the nine indicators show High achievement, only one is Negligible.

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

The Relevance of PAs is rated Satisfactory, and Efficacy rated Moderately Satisfactory.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

The ongoing conflict poses an extreme risk to the achievement of the objectives, particularly those involving institutional capacity, fiscal costs and enabling investment. The current conflict diverts both human and financial resources away from anti-corruption measures, public-private partnerships to improve infrastructure, improving credit markets, and social safety nets. Vested interests can continue to impede institutional reforms in an environment of uncertainty and reduced resources. High uncertainty about the path of the conflict inhibits willingness to invest, by small farmers as well as by the unbundled gas companies and port concessionaires.

Fiscal capability to sustain progress in reforms is severely compromised by the heightened macroeconomic risks during the conflict. Continued progress in de-monopolization depends in part on budgetary resources available to the gas companies and port infrastructure projects. Uncertainty adversely affects banks' NPLs, as well as their readiness to lend to small farmers for land purchases.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Analytical underpinnings and lessons from prior experience

The analytical underpinnings were strong thanks to a multi-year sustained engagement and knowledge developed through sector work and operations, as well as technical assistance (TA) (ICR, para. 67). Ongoing TA supported the design of actions with respect to energy, concessions, anticorruption, financial sector, and pensions (ICR, Table 3).

PD1 did not explicitly incorporate lessons learned, and (perhaps as a consequence) it "underestimated the extent of the deep-rooted influence of powerful vested interests" (ICR, para. 68). Following a substantial delay due to invalidation of PA4 anti-corruption actions by the Constitutional Court (representing such interests), PD2 (para. 31) was more explicit that specific measures were needed to deal with "major governance challenges and pushback from vested interests." Although PD1 (para. 72) noted that implementation of "reforms in key sectors require[s] follow up actions to yield results," ERDPL2 "did not include such follow-up actions in critical reform areas such as gas unbundling and anti-corruption" (ICR, para. 70). With respect to the financial sector, PD2 (para. 38) argued that follow-up actions were not needed because "continued dialogue and technical assistance by the World Bank remain on track as reflected in strong progress in the reduction of NPLs at SOBs."

Design

The ERDPL was "initially conceived as a standalone operation and was converted to a programmatic series of two only after the decision meeting" (ICR, para. 66). As the decision meeting was on 27 February, 2020, at the time that COVID-19 was emerging as a serious pandemic, the change to a series presumably was to enable adjustments to the disruption of pandemic measures and mobilization of additional resources to cope. (Neither the ICR nor PD2 was explicit on the rationale.) The consequences of this last-minute change in design included "a limited number of triggers for DPL2" and "a slight disconnect between DPL-1 and DPL-2, with limited complementarities between the two operations" (ICR para. 66).

Results chain and indicators

PD1 (section 4.1) provided thorough explanations of the rationale for the PAs, which enabled the ICR (Figure 0-1) to formulate a detailed, credible theory of change linking the actions to expected outcomes and development impacts. The RIs were generally satisfactory in terms of monitoring the impact of the associated PAs, though with some gaps with respect to tracking and progress toward objectives. There was no RI for PA7 that mandated electronic auctions for state land sales.

Identification and mitigation of risks

PD1 (para. 71) recognized that “substantial political and governance risks arise from the deep-rooted influence of powerful vested interests that could derail or even reverse reforms supported by this operation,” but was unable to mitigate those risks sufficiently to prevent invalidation of key anti-corruption reforms, resulting in a year’s delay before effectiveness conditions could be met (ICR, para. 77). PD2 maintained the “substantial” overall risk rating, but the Supplementary DPL raised it to “high” in view of the increased macroeconomic, social, governance and fiduciary risks emanating from the ongoing conflict (ICR, para. 76).

PD1 (para. 73) recognized the implementation risks for sectoral reforms, especially regarding agricultural land, given the “politically charged nature of the reform, with significant vested interests.” These risks were “mitigated in part by technical assistance provided by development partners and by close engagement of civil society organization to resist vested interests.”

The supplementary funding with support from various development partners created fiduciary risks that were mitigated through a range of safeguards, including verifications of the flow of funds, review of monthly expenditures, and a suspension trigger (ICR, para. 78).

Consultation with stakeholders and development partners

PD1 (para. 47) set forth the “specific consultations held on the different reform areas” with key stakeholders (including farmer associations, landowners, and the general public, as well as a parliamentary working group regarding land reform); with civil society and the media; and with parliamentarians and the government on anti-corruption).

Close coordination with multilateral and bilateral development partners was critical to ensuring support (TA as well as financial) for implementation of key reforms and mobilization of emergency funding to offset the fiscal demands of coping with the COVID-19 crisis and thereby minimizing diversion of resources from the reform program. Key financing and TA for financial, institutional and anticorruption reforms came from the IMF (including a 3-year, US$5.5 billion EFF program), European Union, United States Treasury and Agency for International Development, United Kingdom, Japan international Cooperation Agency, Swedish International Development Agency, and others, in addition to World Bank sectoral projects and TA (ICR, para. 6).

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

Monitoring

Data for RIs were generally available, monitored and assessed as part of the preparation of the second ERDPL and Supplementary DPL. However, data were not available for continued monitoring of NPLs (RI 7) or the share of women among beneficiaries of pension indexing (RI 9).

An Implementation Status and Result Report at the time of the decision review for the second ERDPL (5 November, 2021) provided details on progress in implementing policy and institutional reforms during 2021 (after a slowdown in 2020 due to the COVID-19 pandemic), giving the status for each RI, and rated the overall risk as Substantial (subsequently raised to High as of the Supplementary DPL).

Adaptation

The Bank responded to the rapidly emerging severe consequences of the COVID-19 pandemic and measures to contain it early in 2020 by splitting the planned standalone DPL into a series of two operations and seeking substantial supplementary funding to offset the heavy fiscal burden. In view of the disruption to institutions, priorities and budgets, this adaptation was appropriate to allow adequate time and fiscal space to implement some of the ERDPL measures. It allowed the flexibility to postpone some measures to the second operation, and also to introduce some new actions to further achievement of the objectives (PAs 3, 7 and 10). On the other hand, this retrofitted split meant that there was not as much linking the two operations in terms of initial actions in the first and follow-up actions in the second.

Implementation of PA4 was initially prevented by the October 2020 decision of the Constitutional Court that the law underpinning the asset declaration and verification regime was unconstitutional. This delayed effectiveness by a year and required drafting and passage of new legislation (with WB TA) in December 2020 and June 2021 “to restore the verification process of asset declarations, key powers of the NACP and other fundamental parts of the legal framework on asset declaration” (PD2, para. 33).

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

Both design and implementation are rated Moderately Satisfactory.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

It is too early for evidence to be available on possible social and poverty impacts.

b. Environmental

It is too early for evidence to be available on improvements in resilience to climate change and other external shocks.

c. Gender

It is too early for evidence to be available on impacts related to gender. Data on the gender composition of pensioners was not available.

d. Other

n.a.

10. Quality of ICR

Rationale

The ICR provides a thorough, clearly-written narrative of the DPL series, including the context, rationale and challenges, summarized in an excellent, coherent Theory of Change that sets out the results chain from actions to intended outcomes and objectives. It both presents the actions and results in tabular form and thoroughly interrogates the data in the text discussion. It both explains the rationale behind PAs and RIs and queries their relevance when appropriate, including suggestions for more appropriate measures to achieve or monitor results. The discussion of lessons learned is well grounded in and focused on the actual experience of the series. It is consistent with the guidelines.

a. Rating

High

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments

Outcome	Moderately Satisfactory	Moderately Satisfactory
Bank Performance	Moderately Satisfactory	Moderately Satisfactory
Relevance of Results Indicators	---	Moderately Satisfactory
Quality of ICR	---	High

12. Lessons

Overcoming resistance to reforms by vested interests depends on a combination of collaboration with development partners, engagement with civil society, and TA. Getting the government to persist with new legislation after the Constitutional Court invalidated the previous anti-corruption law required both external pressure from the donor community (especially the EU and US) and internal push from civil society (ICR, para. 83). Rapid preparation and passage of new legislation was enabled by WB "TA in drafting these legislative acts and continue to support strengthening the governance structures to ensure that NACP is able to fulfill its long-term mandate" (PD2, para. 33). The ability to rapidly mobilize supplemental financing from development partners was also critical to maintaining the funds needed for implementation of the DPL series.

When political risks are high, as in a conflict situation, additional measures to mitigate fiduciary risk may be needed. Supplemental financing was critical to offset the fiscal costs of dealing with the pandemic, but once disbursed, careful monitoring of the flow of funds was important to avoid diversion. Furthermore, a suspension trigger was needed to mitigate the risk of a possible change in government and redirection of funds (ICR, para. 86).

New instruments could improve the WB's ability to cope rapidly with a sudden disaster or conflict. Grant funding for the Supplementary DPL had to be processed separately from the established loan agreement. The ICR (para. 87) suggested "clear operating procedures that clarify the legal and procedural steps to quickly transfer resources." It also noted (para. 88) that "the World Bank does not have an instrument in place to suspend interest and principal payments to ensure net-positive flows at the on-set of conflict or disasters."

"**Breaking up a vertically integrated monopoly is a necessary but not sufficient condition to enhance competition in a state-dominated sector"** (ICR, para. 85). Making a sector more competitive in the absence of private investment requires both external enforcement of a suitable regulatory framework and internal measures to strengthen corporate governance of SOEs.

Digitalization can help improve market functioning and governance by reducing barriers to entry, reducing the scope for discretionary decisions by central intermediaries, giving everyone access to the same information, and providing an audit trail (ICR, para. 91). Electronic auction of state land sales helped to mitigate the risk that vested interests could shut out small farmers from purchasing or leasing state land (ICR, para.89).

13. Project Performance Assessment Report (PPAR) Recommended?

No