



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 16-Sep-2024 | Report No: PIDIC00177



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies) Ukraine	Operation ID P506463	Operation Name Second Growth Foundation Development Policy Loan	
Region EUROPE AND CENTRAL ASIA	Estimated Approval Date 16-Dec-2024	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing (DPF)
Borrower(s) Ministry of Finance of Ukraine	Implementing Agency Ministry of Finance of Ukraine		

Proposed Development Objective(s)

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

Financing (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	To be decided
Is this project Private Capital Enabling (PCE)?	To be decided

SUMMARY

Total Financing	1,000.00
------------------------	-----------------

DETAILS

Total World Bank Group Financing	1,000.00
World Bank Lending	1,000.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

Two and half years after Russia’s invasion, Ukraine remains severely affected by active hostilities, which impact lives, livelihoods, and the economy. Since February 24, 2022, Ukraine has experienced the exodus of an estimated 6.7 million refugees globally and US\$ 486 billion in estimated recovery and reconstruction needs. While GDP had collapsed by almost one-third in 2022, Ukraine’s economy has proven resilient since, registering growth of 5.3 percent in 2023 and almost closing the large output gap that had opened after Russia’s invasion. Poverty has increased sharply in Ukraine because of the war. Three out of every ten Ukrainians are now living in poverty and there are 1.8 million more people in poverty today than in 2020.

Ukraine’s policy framework is undergoing a shift from an exclusive focus on stability towards an attempt to close the output gap and enhance growth potential while balancing macro accounts. Since February 2022, aid inflows have helped Ukraine manage fiscal and external imbalances, contributing to continued economic activity and the mitigation of poverty through the maintenance of social safety nets, while a restrictive monetary policy contributed to exchange rate stability and the mitigation of inflationary pressure. More recently, the authorities have increasingly started to emphasize the importance of supporting growth, in addition to maintaining macroeconomic stability, to enhance fiscal self-sufficiency and close the income gap to the European Union. To achieve this, the policy agenda includes efforts to enhance the economy’s potential, including through accelerated EU alignment after being granted candidate status, and on closing the output gap through targeted restoration and security investments, including in the energy and transport sectors.

The proposed operation, the second in a series of two, supports the authorities’ focus on growth, while providing critical external financing to meet Ukraine’s fiscal needs. With regards to the former, the proposed operation focuses on Ukraine’s structural agenda, supporting reforms that facilitate a structural shift towards sustainable growth and that enhance macro-financial stability to create a growth-conducive environment. Through this, it complements reform support provided by the EU and the IMF. In addition, Ukraine’s international partners have committed to help meet the country’s fiscal needs through a 4-year, US\$122 billion support package. This operation forms part of this package.

Relationship to CPF

The proposed operation is a part of the WBG effort to support the people of Ukraine which has mobilized over US\$47 billion since Russia’s invasion. The World Bank engagement is guided by the Ukraine Country Program Update which identifies maintaining essential public services and relief efforts, supporting repair and reconstruction of core infrastructure, sustaining the private sector, and supporting key reforms for sustained economic growth when the war ends as priorities. This operation focuses on the last of these objectives.

C. Proposed Development Objective(s)

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

Key Results

The proposed operation is the second in a series of two and is aimed at (i) strengthening the economic policy framework to facilitate a structural shift towards sustainable growth, and (ii) enhancing macro-financial stability to



create a growth-conducive environment. Measures that increase productivity aim at enhancing the competitiveness of the railway market, reducing the state footprint in the banking sector, and enhancing price signals to encourage sustainable energy generation. Capital accumulation is supported through improvements to information provision for the evaluation of mortgage applications and efforts to prevent unstructured bankruptcies. Access to export markets is facilitated through institutional reforms to the State Customs Service. Actions that enable a growth-conducive macro-financial policy framework cover (i) domestic revenue mobilization by strengthening excise and land tax bases, (ii) public procurement through improved safeguards and EU alignment, and (iii) enhanced capital market supervision through the reduction of information distortions.

D. Concept Description

The proposed operation is the second in a programmatic series of two, which form part of a US\$ 122 billion and 48-month international support package for Ukraine. The EU Commission's support to Ukraine is centered around the accession agenda and the EUR50 billion four-year Ukraine Facility, guided by the ambition to align per capita incomes outline in the Ukraine Plan. The IMF's US\$ 15.6 billion 48-month Extended Fund Facility (EFF) program, approved in March 2023, is focused on ensuring macroeconomic and fiscal stability. It remains on track, having passed a fourth review in June 2024. The first Growth Foundations DPO, approved in March 2024, provided financing of US\$1.5 billion, guaranteed by bilateral donors, and focuses on the structural agenda to boost the growth potential of the Ukrainian economy. The proposed operation is the second in this series and continues the reforms outlined in the first operation.

The proposed operation is structured around two pillars. The first pillar focuses on enabling a structural shift towards sustainable growth by reducing market distortions caused by the state's footprint in the economy, increasing the efficiency of economic governance, improving SMEs' and farmers' access to finance, incentivizing a green transition in the energy sector, and strengthening customs integrity. The second pillar intends to strengthen macro-financial stability through a focus on domestic revenue, improved financial sector regulation and management, and improved integrity and EU alignment of public procurement.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The program supported by this operation is expected to have mostly neutral poverty and social impacts, with some potential for adverse impacts that can be managed through the country systems and the design of the supported policy access. Improved access to finance for farmers and SMEs is expected to benefit mostly smaller firms and thus have positive distributional consequences in the medium term through improved access to opportunities. The broadening of the domestic tax bases will improve the fairness and progressivity of the tax system, leading to a more equitable burden sharing of fiscal expenditures, while adverse impacts on purchasing power can be mitigated through reform design. Efforts to reduce the state footprint in the economy are expected to benefit households through higher growth and opportunities in the medium term, whereas immediate adjustment impacts will be managed through transition arrangements.

Environmental, Forests, and Other Natural Resource Aspects

The prior actions of this operation are expected to have neutral to positive effects on the environment, forest, and other natural resources. Positive environmental effects are expected through reforms to the energy sector that encourage a transition towards renewable and low-emission energy generation.



CONTACT POINT

World Bank

Karlis Smits
Lead Country Economist

Florian Michael Blum
Senior Economist

Borrower/Client/Recipient

Ministry of Finance of Ukraine

Denys Ulyutin
First Deputy Minister
ulyutin@minfin.gov.ua

Implementing Agencies

Ministry of Finance of Ukraine

Denys Ulyutin
First Deputy Minister
ulyutin@minfin.gov.ua

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Karlis Smits, Florian Michael Blum
----------------------	------------------------------------

Approved By

Practice Manager/Manager:		
---------------------------	--	--

Country Director:	Kevin A Tomlinson	16-Sep-2024
-------------------	-------------------	-------------



The World Bank

Second Growth Foundation Development Policy Loan (P506463)
