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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$1.051 BILLION

AND

PROPOSED GRANT FROM THE FACILITATION OF RESOURCES TO INVEST IN STRENGTHENING UKRAINE
FINANCIAL INTERMEDIARY FUND

IN THE AMOUNT OF US\$1 BILLION TO

UKRAINE

FOR THE

SECOND GROWTH FOUNDATIONS DEVELOPMENT POLICY OPERATION

December 18, 2024

Macroeconomics, Trade and Investment
Europe And Central Asia

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Ministry of Finance of Ukraine

GOVERNMENT FISCAL YEAR

January, 1 – December, 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 28, 2024)

US\$1.00 = UAH 41.3

ABBREVIATIONS AND ACRONYMS

ADVANCE	Advancing Needed Credit Enhancement for Ukraine	MOF	Ministry of Finance
ARISE	Agriculture Recovery Inclusive Support Emergency	MW	Megawatt
ASA	Advisory Services and Analytics	NBU	National Bank of Ukraine
CoM	Cabinet of Ministers of Ukraine	NDC	Nationally Determined Contributions
CPF	Country Partnership Framework	NEURC	National Energy and Utilities Regulatory Commission
DPO	Development Policy Operation	NMV	Normative Money Value
DSA	Debt Sustainability Analysis	NPLs	Non-performing Loans
ECA	Europe and Central Asia	NSSMC	National Securities and Stock Market Commission
EFF	Extended Fund Facility	OECD	Organisation for Economic Co-operation and Development
EIA	Environmental Impact Assessment	OHS	Operational Health and Safety
E&S	Environmental and Social	PA	Prior Action
ESF	Environmental and Social Framework	PCE	Private Capital Enabled
ESMS	Environmental and Social Management Systems	PDO	Program Development Objective
EU	European Union	PforR	Program-for-Results
FCV	Fragility, Conflict, and Violence	PFM	Public Financial Management
FDI	Foreign Direct Investment	PPG	Public and Publicly Guaranteed
FORTIS	Facilitation of Resources to Invest in Strengthening	PPP	Purchasing-Power Parity
Ukraine FIF	Ukraine Financial Intermediary Fund	RISE	Resilient, Inclusive and Sustainable Enterprise
GDP	Gross Domestic Product	SAR	State Agrarian Registry
GHG	Greenhouse Gas	SAS	State Audit Services
GW	Giga Watt	SCS	State Customs Services
GRS	Grievance Redress Service	SDR	Special Drawing Rights
IBRD	International Bank for Reconstruction and Development	SMEs	Small and Medium Enterprises
ICR	Implementation Completion and Results Report	SOB	State-Owned Banks
IFC	International Finance Corporation	SOE	State-Owned Enterprise
IFIs	International Financial Institutions	SORT	Systematic Operations Risk-Rating Tool
IMF	International Monetary Fund	SURGE	Supporting Reconstruction through Smart Fiscal Governance
INSPIRE	Investing in Social Protection for Inclusion, Resilience, and Efficiency	UAH	Ukrainian Hryvnia
IOSCO	International Organization of Securities Commissions	UN	United Nations
LDP	Letter of Development Policy	UZ	Ukrzaliznytsia
MFD-e	Maximize Finance for Development enabling	VAT	Value Added Tax
		WB	World Bank
		WBG	World Bank Group

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UKRAINE

Second Growth Foundation Development Policy Operation (P506463)

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P506463	Yes	2nd in a series of 2

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.

Organizations

Borrower:	Ukraine		
Contact	Title	Telephone No.	Email
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Implementing Agency:	Ministry of Finance of Ukraine		
Contact	Title	Telephone No.	Email
Denys Ulyutin	First Deputy Minister	380442015630	ulyutin@minfin.gov.ua

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	2,051.00
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DETAILS



World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	1,051.00
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Non-World Bank Group Financing

Trust Funds	1,000.00
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Trust Funds	1,000.00
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PRACTICE AREA(S)

Practice Area (Lead)

Macroeconomics, Trade and Investment

Contributing Practice Areas

Transport; Poverty and Equity; Infrastructure, PPP's & Guarantees; Agriculture and Food

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

OVERALL RISK RATING

Overall Risk ● High



RESULTS

Baseline	Closing Period
Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.	
Total dividends paid by State-Owned Enterprises to the Government. (Number)	
Dec/2023	Dec/2026
UAH 35.1 bn	UAH 50 bn
Appointment of independent sales adviser (Yes/No)	
Dec/2023	Dec/2026
No	Yes
Renewable energy capacity enabled with policy support (Megawatt) ^{CRI}	
Dec/2023	Dec/2026
0	350
Percent of biomethane production exported. (Percentage)	
Dec/2023	Dec/2026
0	10
Value of financing facilitated via agrarian notes. (Amount(USD))	
Dec/2023	Dec/2026
0	US\$75 million, at least US\$15 million of which accrues to female farmers and female-headed and female-owned firms
Outstanding credit to the agricultural sector. (Number)	
Dec/2023	Dec/2026
UAH 116 billion	UAH 150 billion
Share of new loans supported through the 5-7-9 program allocated to SMEs (Percentage)	
Dec/2023	Dec/2026
95 percent	100 percent, 20 percent of which accrue to female-headed and female-owned firms and female farmers
Number of cases successfully using preventive restructuring procedures. (Number)	
Dec/2023	Dec/2026
0	10 total
NSSMC's governance, powers, and oversight framework in compliance with IOSCO principles (Yes/No)	
Dec/2023	Dec/2026
No	Yes
Score on the Customs Logistics Performance Index. (Number)	
Dec/2023	Dec/2026
2.40	2.90
Enhancing macro-financial stability to create a growth-conducive environment.	
General government (consolidated, including social security contributions) tax revenue and excise tax revenue (% of GDP) (Percentage)	
Dec/2023	Dec/2026
32.6, 2.9	36.9, 3.8
Percentage of procurement procedures scrutinized by the State Audit Services (SAS) from the procedures identified with red flags. (Percentage)	
Dec/2023	Dec/2026
11.50	20, subject to a maximum of 2,300 scrutinization procedures per year



IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO UKRAINE

I. COUNTRY CONTEXT AND OPERATION SUMMARY

1. **The proposed Second Growth Foundations Development Policy Operation (DPO) supports the authorities' efforts 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.** This is the second operation in a programmatic series of two and provides financing of US\$1.051 billion using International Bank for Reconstruction and Development (IBRD) resources credit-enhanced through the Advancing Needed Credit Enhancement (ADVANCE) Ukraine Trust Fund, supported by the Ministry of Finance of Japan and the Government of the United Kingdom (UK).¹ Disbursement of the portion of the loan guaranteed by the UK is subject to the signing of the guarantee agreement between the World Bank and the UK. The portion of the loan amount supported by the credit enhancement is subject to the deposit of the equivalent amount of promissory notes by the Ministry of Finance of Japan into the ADVANCE Ukraine Trust Fund. Ukraine's Ministry of Finance has agreed with the Ministry of Finance of Japan on a partial² capitalization of interest accruing and fees due under the terms of the loan for the proposed operation for the period for which the operation is active, which would be paid out of the proceeds of the loan and reduce the disbursed amount. This operation is also financed by a US\$1 billion grant from the "Facilitation of Resources to Invest in Strengthening" (FORTIS) Ukraine Financial Intermediary Fund.

2. **Russia's invasion of Ukraine continues to impose an immense human and economic toll.** As of September 2024, the United Nations (UN) reports that 11,973 civilians, including 650 children, have been killed and more than 25,900 have been injured since February 24, 2022. To date, over 6.3 million people have fled abroad and 3.7 million remain internally displaced (according to the Office of the United Nations High Commissioner for Refugees).³ It is estimated that an additional 1.8 million people have fallen into poverty (as measured by the national poverty line) between 2020 and 2023 due to reduced employment and incomes. Renewed attacks on the energy infrastructure in mid-2024 have resulted in more than half of Ukraine's energy generation capacity being damaged, destroyed, or not under the authorities' control, impacting households and industrial capacity.

3. **Despite these adversities, the authorities have stabilized the economy and maintained a line of sight to the country's development ambitions, which are centered around its European Union (EU) accession.** Ukraine has been able to maintain macroeconomic stability since February 2022, controlling inflation, maintaining a stable currency, financing critical social expenditure, and accumulating a buffer of foreign exchange reserves. The private sector has also remained resilient, aided by continued strong domestic demand and signified by recent output recoveries in the agricultural and industrial sectors. The receipt of external aid – including an expected US\$41.4 billion in 2024 – has been instrumental to this achievement. Concurrently, the country has advanced significantly on its ambition for EU accession, which culminated in the formal opening of negotiations in June 2024. Despite the significant achievements to date, Ukraine's path to EU accession hinges on compliance with the EU's Copenhagen criteria. These include economic criteria which, to be met, require structural reforms to enable a functioning market economy, as well as a demonstration that Ukraine has the economic fundamentals to achieve competitiveness within the EU. With a GDP per capita of only 22 percent of the EU's average,⁴ significantly lower than other recent accession countries at the time of their accession, a central imperative is accelerating the country's growth.

¹ IBRD is and will remain the lender of record for this operation and this claim will not be part of any future debt treatment.

² Only the part of the IBRD financing that is credit enhanced through the ADVANCE Ukraine trust fund will be subject to interest rate capitalization. In addition, interest capitalization will only apply while the operation is active.

³ <https://reporting.unhcr.org/operational/situations/ukraine-situation#:~:text=Millions%20of%20people%20will%20remain,refugees%20forecasted%20across%20the%20region.>

⁴ Measured using GDP per capita in purchasing-power parity (PPP) terms.



4. **Recognizing the importance of increasing growth, the authorities, together with their international partners, have embarked on an ambitious reform agenda.** This agenda aims to simultaneously achieve four outcomes: (i) maintaining macroeconomic stability, (ii) accelerating short-term growth through targeted interventions, (iii) strengthening institutional alignment with the EU, and (iv) increasing the country’s medium-term potential growth. Development partner support has been strategically aligned with these areas. The International Monetary Fund (IMF) is supporting a 48-month US\$15.6 billion Extended Fund Facility (EFF) program focused on maintaining economic stability. The EU, through the accession negotiation process and the 4-year, EUR50 billion “Ukraine Facility”, supports improved institutional alignment with the EU. The World Bank Group (WBG), in close collaboration with and with the financial support from other development multilateral and bilateral partners, has been acting as an advisor to the authorities on structural growth issues and has played a pivotal role in helping mitigate adverse impacts since February 2022.

5. **This operation and the programmatic series are structured around two pillars designed to enhance Ukraine’s growth potential:**

▪ ***Pillar 1 aims to strengthen the economic policy framework to facilitate a structural shift towards sustainable growth.*** This pillar targets four proximate drivers of growth: productivity, energy, capital, and access to markets. To enhance productivity, this operation supports reforms to open markets for private participation and reduce the anti-competitive impact of State-Owned Enterprises (SOEs). This includes the submission to Parliament of an updated law on railway transport which, when enacted, will unbundle the state-owned railway company, which is currently a vertically integrated monopoly, and thus enable competition and, eventually, attract private investment and participation to the sector. This pillar also supports the enactment of a law that defines the institutional parameters for the privatization of state-owned banks (SOBs), which currently dominate the financial sector. This pillar also contains reforms to incentivize investments in renewable energy, an important driver of sustainable productivity increases. Reforms to encourage capital accumulation and production resilience focus on the agricultural sector by fully operationalizing the State Agrarian Registry to make it accessible to banks to enable mortgage lending and swift support in case of climate shocks. In addition, two capital market reforms supported under this pillar (i) enable a process of orderly restructuring to prevent bankruptcy and (ii) enhance the regulation of credit rating agencies. To enable access to export markets, this operation supports the enactment of a law that enhances selection procedures for the head of customs to strengthen integrity and professional competency.

▪ ***Pillar 2 focuses on enhancing macro-financial stability to create a growth-conducive environment.*** This pillar supports reforms that enable growth through their contribution to macro-financial stability. This includes, first, efforts to strengthen domestic revenue in an economically efficient and equitable manner, to allow Ukraine to meet its binding fiscal needs while creating minimal economic distortions. Supported reforms include an increase in the excise rates on motor fuels to align with EU levels which, in addition to generating revenue, also contributes to the internalization of externalities from fossil fuel combustion. In addition, this pillar supports the publication of updated land valuations obtained from a mass valuation pilot, an important step towards improving the alignment of land valuations with their true market value, thus closing a tax gap. Second, this pillar supports efforts to enhance procurement integrity through the operationalization of an updated risk indicator system and updated procurement legislation to enable more efficient access for private companies and maximize growth spillovers from public spending.

6. **The operation complements the WBG’s portfolio in Ukraine, is informed by recent analytical work, and is aligned with the WBG’s strategic priorities.** The WBG’s recent operational engagement has combined the provision of support to maintain public services with complementary operations that provide financing against results for institution strengthening and improved service delivery in social and infrastructure sectors. For instance, the Resilient, Inclusive and Sustainable Enterprise (RISE) Program-for-Results (PforR) project is helping improve private firm support programs, complementing this DPO’s focus on legislative reforms that support growth. The Supporting Reconstruction through Smart Fiscal Governance (SURGE) PforR enables improved governance processes for capital expenditures and public financial management (PFM), complementing the second pillar of this operation. Other operations in the education,



health, and social protection sectors meet Ukraine’s critical social needs and institutions development objectives. This DPO is also informed by recent World Bank analytical work, including the “Restoring Ukraine’s Economic Growth” analytical activity which identified productivity-enhancing reform priorities in the railway and banking sectors, technical assistance to conceptualize and monitor growth-critical reforms as part of the “reform matrix”, trust-funded work on land governance that informed reforms in the agricultural sector, support to the development of a “National Revenue Strategy” (which identified land valuation and excise tax increases as priority reforms) and technical assistance on public procurement. The DPO is also aligned with the WBG Strategy for Fragility, Conflict, and Violence (FCV) 2020-25 and the WBG’s Global Crisis Response Framework that highlights the importance of remaining engaged during conflict and crisis situations to preserve hard-won development gains, protect essential institutional capacity, and ensure readiness for recovery and reconstruction.

7. Disaster and climate-related shocks pose a major challenge to sustainable social and economic development in Ukraine. The country is exposed to various natural hazards and continues to remain highly vulnerable to hydrometeorological risks. Climate change is already impacting the country, with a notable warming trend over the past 60 years. These changes in weather patterns are manifesting in more frequent and severe droughts and floods events, causing significant asset losses with cascading effects, hindering economic growth and undermining macroeconomic stability. Projected temperature increases and more frequent heatwaves will further strain agriculture, leading to reduced crop yields, and increased pests and diseases impacting crops and livestock. The reconstruction and recovery efforts present an opportunity to integrate low-carbon technologies and nature-based solutions to increase climate mitigation and adaptation, and resilience.

II. MACROECONOMIC POLICY FRAMEWORK

8. The macroeconomic policy framework is assessed to be adequate for the proposed operation, conditional on the receipt of the assured external concessional financing. Ukraine’s authorities have demonstrated a commitment to prudent macroeconomic policies aimed at stability and growth. This is witnessed by its performance under the IMF EFF program, which remains on track; continued efforts to undertake structural reforms to support growth, as demonstrated through this programmatic DPO engagement; efforts to proactively raise domestic revenues, as evidenced by policy actions supported under this DPO, the approval of the National Revenue Strategy, and recent parliamentary efforts to pass a tax reform bill; and significant progress in advancing EU accession, as evidenced by the commencement of negotiations in mid-2024. Ukraine’s macroeconomic indicators have remained sound, with a solid growth recovery, stable inflation and forex reserve levels, and a successful closure of financing needs to date. These achievements notwithstanding, the adequacy of Ukraine’s macroeconomic policy framework depends largely on factors outside of the authorities’ control, including the receipt of external assistance to close financing needs, geopolitical conditions, and the future evolution of active hostilities.

A. Recent Economic Developments

9. Ukraine’s economy continues to recover, proving resilient to prolonged hostilities and targeted attacks. Favorable economic developments—including a strong harvest, steady external assistance, and the reopening of maritime export routes—accelerated GDP growth to 5.3 percent in 2023, surpassing expectations. This recovery continued into 2024, albeit at a slower pace, with GDP expanding by 6.5 percent in Q1 and 3.7 percent in Q2. On the demand side, consumption remains the key growth driver, though exports have also benefited from reduced logistics costs since late 2023, while investment shows signs of recovery due to government efforts to quickly repair infrastructure. On the supply side, favorable climatic conditions and improved domestic input availability increased agricultural yields in 2023. Despite a drier climate in 2024, high-frequency indicators suggest only a modest reduction in yields, supported by access to fertilizer and subsidized credit. The industrial sector has proven resilient, even though attacks on generation infrastructure, according to the International Energy Agency, reduced available capacity from 38 Giga Watt (GW) in January 2022 to just 12 GW by summer 2024. Countervailing these headwinds was the reopening of the Black Sea corridor



in late 2023 and the increased capacity to import electricity, which have enabled sustained production and increased steel production to hit its highest level since February 2022 in May 2024, with capacity utilization rising from 20 percent in 2022 to 75 percent in the first half of 2024. In the services sector, domestic trade remains dominant, bolstered by strong private and public consumption, while a revival in construction, particularly in housing, has also contributed to growth.

10. Defense spending remains Ukraine’s main expenditure driver, as prolonged hostilities necessitated a budget revision and the introduction of additional tax revenue sources in late 2024. In 2023, Ukraine's defense spending accounted for 32 percent of GDP, contributing to total expenditure of 74.4 percent of GDP and a fiscal deficit (excluding grants) of 26.1 percent of GDP. A similar pattern emerged in 2024, with defense spending reaching UAH1.3 trillion by the end of August, 6 percent more than in the same period in 2023, and total expenditure estimated at 63.7 percent of GDP for the whole year. Meanwhile, tax revenue performance has been strong, increasing by a nominal 30 percent year-on-year as of August 2024. This growth was driven by robust corporate income tax collections, bolstered by an extraordinary tax rate applied to banks, and high indirect tax revenues, due to domestic consumption growth and increased excise rates. These gains helped offset a decline in non-tax revenues from reduced profit transfers by the National Bank of Ukraine (NBU) and contributed to a modestly lower fiscal deficit by the end of August compared to the same period the previous year. However, as the original budget for 2024 had assumed a more moderate deficit path, based on an assumption of lower defense spending, a budget revision in September that increased primary expenditure by about UAH450 billion became necessary. The amendment proposed financing this through increased domestic borrowing and tax rate hikes, including on (i) the military tax, and (ii) banks’ and non-bank financial institutions’ income. When enacted, these measures are expected to raise UAH141 billion, or approximately 1.6 percent of GDP, in 2025.

Table 1. Key Macroeconomic Indicators

	2021	2022	2023	2024e	2025p	2026p	2027p
	<i>Annual percentage change</i>						
National Accounts							
GDP at constant prices	3.4	-28.8	5.3	3.2	2.0	7.0	5.0
Consumption	6.9	-27.9	6.2	2.7	4.3	6.5	4.0
Investment	9.1	-33.9	52.9	15.0	11.7	26.7	14.3
Exports of goods and services	-8.6	-42.0	-5.4	7.2	4.9	8.6	5.3
Imports of goods and services	14.2	-17.4	8.5	9.1	9.8	11.3	8.2
Sectoral dynamics							
Agriculture	14.4	-25.2	7.6	-6.0	-3.0	5.0	5.1
Industry	7.2	-42.7	4.7	5.0	3.5	10.0	16.8
Services	0.5	-24.7	5.0	4.4	2.5	6.5	1.9
Inflation							
GDP deflator	24.8	34.9	18.5	12.0	10.5	8.0	6.0
Consumer prices (eop)	10.0	26.6	5.1	9.3	8.2	6.5	5.0
Selected monetary account							
Broad money (M2) money	12.0	20.8	23.0	15.4	13.3	12.1	10.7
Credit to non-government	8.4	-3.1	-0.5	9.0	12.7	20.5	22.4
External sector							
Exports fob	34.3	-29.4	-11.2	9.6	5.2	15.7	11.4
Imports fob	33.4	-1.1	6.7	4.7	5.6	2.0	3.8
	<i>Percent of GDP</i>						
External sector							
Exports fob	40.8	35.8	28.7	30.5	31.1	32.4	33.7
Imports fob	42.1	51.8	49.9	50.6	51.9	47.6	46.1
Current account balance (incl. grants)	-1.9	5.0	-5.4	-7.4	-13.3	-9.5	-6.3
Foreign Direct Investment (net)	3.8	0.1	2.6	2.1	2.1	4.2	4.7
Fiscal Accounts							
Total revenue and grants	36.5	49.8	54.8	45.0	40.1	39.7	41.3
Total expenditure and net lending	40.5	65.4	74.4	63.7	59.3	49.1	43.9
Gen. Gov't Balance (incl. grants)	-4.0	-15.6	-19.6	-18.7	-19.2	-9.4	-2.6
Gen. Gov't Balance (excl. grants)	-4.0	-24.8	-26.1	-24.5	-20.1	-9.7	-3.7



PPG Debt (eop)	49.0	77.7	84.4	97.2	104.9	107.0	101.9
Memorandum items							
Gross reserves (US\$ billions, EOP)	30.9	28.5	40.5	43.5	45.8	47.4	49.6
In months of next year's imports	4.5	3.9	5.2	5.3	5.5	5.5	5.4
Nominal GDP (UAH billion)	5,451	5,239	6,538	7,555	8,520	9,844	10,953

Source: World Bank Staff estimates, NBU, MOF, Statistics Office.

11. External concessional loans remain the main mechanism used to finance the budget deficit, providing much needed financing but also contributing to a growing debt stock. The high financing needs since February 2022 have added to the country's debt stock, with public and publicly guaranteed (PPG) debt at the end of 2024 expected to reach 97.2 percent of GDP. The authorities completed an exchange of their outstanding Eurobonds in August 2024, which reduced the outstanding nominal amounts by between 24 and 36 percent (depending on the realization of a contingent instrument), deferred most amortization payments to post-2033, and reduced near-term interest expenditures. Good progress has been made towards completion of treatments of non-Eurobond private debt, including outstanding GDP warrants and commercial loans, and of official bilateral debt, although these are still pending. Official bilateral debt is subject to a standstill during the IMF program. Official bilateral creditors have provided assurances to restructure their claims before the final review of the IMF program to restore debt sustainability.

12. The NBU adjusted monetary policy in 2023 which contributed to increased market-determination of the exchange rate, while inflation continued to be dominated by supply-side factors. After maintaining a pegged exchange rate from February 2022 to October 2023, the NBU adjusted its monetary policy to a regime of managed flexibility. This approach was further refined in September 2024, when the NBU council adopted new monetary policy guidelines that reintroduced flexible inflation targeting, albeit with a longer horizon than before February 2022. The NBU now aims to return to the 5 percent inflation target within three years, compared to the previous 9 to 18 months. Alongside this policy shift, the NBU gradually reduced nominal policy rates, from a peak of 25 percent in early 2023 to 13 percent currently. These factors contributed to a gradual depreciation of the exchange rate, from UAH36.57 per US\$ in October 2023 to UAH41.2 per US\$ today. Inflation declined throughout 2023 and early 2024, from 26.6 percent at the end of 2022 to 3.2 percent in April 2024, driven by conducive supply-side factors, including high domestic food output and the maintenance of fixed energy tariffs. Since then, higher energy prices and their pass-through have increased inflation to 9.7 percent in October. Lower agricultural output compared to 2023, an increased share of domestic output exported, and the gradual depreciation of the exchange rate also contributed to the rise in inflation.

Table 2. Key Fiscal Indicators, percent of GDP

	2020	2021	2022	2023	2024e	2025p	2026p	2027p
Total revenue and grants	41.0	36.5	49.8	54.8	45.0	40.1	39.7	41.3
Revenue	41.0	36.5	40.6	48.3	39.3	39.2	39.4	40.2
Tax revenue	35.3	33.5	34.0	32.6	36.0	35.9	36.9	37.7
Personal Income tax	7.2	6.4	8.0	7.6	8.1	8.5	8.4	8.4
Corporate profit tax	2.9	3.0	2.5	2.4	3.5	2.7	2.6	2.6
Social security contributions	7.3	6.6	8.2	7.5	7.5	7.0	7.1	7.0
Property tax	0.9	0.8	0.7	0.7	0.6	0.7	0.5	0.5
VAT	9.8	9.8	8.9	8.9	10.5	10.7	11.6	12.3
Excise tax	3.8	3.3	2.2	2.9	3.1	3.8	3.8	4.0
Taxes on international trade	0.7	0.7	0.5	0.6	0.6	0.7	0.7	0.8
Other taxes	2.6	2.9	3.0	2.1	2.0	1.8	2.1	2.1
Non-tax revenue	5.7	3.0	6.6	15.6	3.3	3.4	2.5	2.5
Grants	0.0	0.0	9.2	6.5	5.8	0.9	0.3	1.1
Total expenditures	47.0	40.5	65.4	74.4	63.7	59.3	49.1	43.9
Current expenditures	42.9	36.6	63.0	69.8	60.5	54.2	45.3	39.4
Wages and compensation	11.0	9.5	23.7	22.6	20.9	18.8	14.9	10.2
Goods and services	9.4	8.9	16.2	25.6	12.7	8.8	6.9	6.5
Interest payments	3.0	2.8	3.1	3.9	5.0	5.7	3.7	3.5
Subsidies to corporations	3.3	2.1	2.5	2.4	6.0	7.2	5.2	3.4
Social benefits	16.2	13.3	17.5	15.2	15.7	13.7	14.6	15.8
Pensions	11.9	9.5	11.1	11.4	11.5	10.1	9.9	9.8



Social welfare	4.3	3.8	6.4	3.8	4.2	3.6	4.7	6.0
Other current expenditures	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditures	4.1	3.8	2.5	4.8	2.4	4.2	4.3	5.0
Reserve fund	0.0	0.0	0.0	0.0	0.6	0.5	-1.0	-1.0
Net lending	0.0	0.1	0.0	-0.1	0.3	0.5	0.4	0.4
Overall fiscal balance (incl. grants)	-6.0	-4.0	-15.6	-19.6	-18.7	-19.2	-9.4	-2.6
Primary balance	-3.0	-1.1	-12.5	-15.7	-13.7	-13.5	-5.7	0.9
Overall fiscal balance (excl. grants)	-6.0	-4.0	-24.8	-26.1	-24.5	-20.1	-9.7	-3.7
Financing	5.9	4.0	15.8	19.6	18.7	19.2	9.4	2.6
Domestic (Net)	3.9	1.6	5.0	3.1	3.5	1.0	0.8	-0.6
External (Net)	2.0	2.4	10.7	16.5	15.2	18.3	8.7	3.2

Source: MOF, World Bank Staff estimates.

13. Declining grant receipts outweighed the impact of a slightly narrowing trade deficit on the current account.

Ukraine's trade deficit at the end of August 2024 stood at US\$22.1 billion, US\$2.3 billion less than in the same period one year earlier. Contributing to this was a US\$2.2 billion merchandise export expansion, as agricultural, mineral, chemical, and metal products benefited from reduced logistics costs and improved maritime export opportunities. Service imports declined by US\$2.2 billion, driven by reduced personal travel imports and fewer government service purchases abroad. Merchandise import demand, by contrast, remained strong, growing by US\$2.6 billion over the same period, driven primarily by machinery imports and imports of energy since May. By the end of August, grant receipts in 2024 were US\$2.8 billion lower compared to the same period in 2023 which, together with a stark reduction of income from Ukrainians working abroad, widened the current account deficit by 66 percent to US\$8.5 billion. At the end of the year, the current account deficit is projected to continue widening to US\$13.6 billion (or 7.4 percent of GDP). The current account deficit is financed primarily by external borrowing by the government, which resulted in cumulative gross inflows of US\$14 billion through August 2024. Net FDI inflows of US\$3.2 billion also provided current account financing, as did a small forex reserve drawdown of US\$489 million. Reserves stood at US\$36.6 billion at the end of October and have provided an important macroeconomic buffer.

Table 3. PPG Debt Stock and Debt Service

	Debt Stock (end of period)			Debt Service (Principal and Interest)			
	2023			2024	2025	2024	2025
	in million US\$	Percent of Total	Percent of GDP	in million US\$		(Percent of GDP)	
Total PPG Debt	145,317	100.0	84.4	19,928	20,742	10.8	11.0
Domestic Debt	43,612	30.0	25.3	14,402	14,380	7.8	7.6
External Debt	101,705	70.0	59.1	5,526	6,363	3.0	3.4
Multilateral creditors	67,878	46.7	39.4	5,027	5,860	2.7	3.1
Bilateral Creditors	6,953	4.8	4.0	18	82	0.0	0.0
Commercial Creditors	26,874	18.5	15.6	480	421	0.3	0.2
Memo items							
SOE guaranteed external debt	1,525	1.0	0.9	..	..	..	..
External Arrears	4,861	..	2.7	..	..	..	..
UAH per US\$: Official (EOP)	38.0	..	..	..	..	..	..

Source: MOF, staff calculations. Note: Debt Service doesn't include guaranteed debt payments.

Table 4. Balance of Payments, Financing Requirements and Sources, US\$ billion

	2021	2022	2023	2024e	2025p	2026p	2027p
Financing Requirements	21.7	19.9	30.8	37.3	42.8	35.6	25.1
Current account deficit ("-" is surplus)	3.9	-8.0	9.7	13.6	25.2	20.1	14.2
Public debt repayment	6.6	4.9	5.8	4.5	4.1	3.8	4.5
IMF	1.4	2.1	2.5	2.4	2.3	2.0	2.0
Other official	5.2	2.8	3.3	2.1	1.8	1.8	2.5
Private debt repayment	3.3	2.0	3.8	4.4	3.0	3.2	1.4
Other net capital outflows (change in net foreign assets)	7.9	21.0	11.5	14.8	10.5	8.5	5.0
Financing Sources	21.7	19.9	30.8	37.3	42.8	35.6	25.1
FDI (net)	7.5	0.2	4.7	3.8	4.0	8.9	10.7
Public borrowings	10.4	19.2	33.7	32.5	37.7	23.8	10.8



IMF	0.7	2.7	4.5	5.3	2.7	1.9	1.1
Other including project financing	9.7	16.5	29.2	27.2	35.0	21.9	9.7
Private borrowings	6.3	-1.9	3.8	4.0	3.4	4.5	5.8
Change in reserves (- = reserve accumulation)	-2.5	2.4	-11.4	-3.0	-2.3	-1.6	-2.2

Source: World Bank Staff estimates, NBU, MOF.

14. The banking system has remained operational and profitable, but risks remain high. The combined profits of Ukrainian banks, after accounting for the deduction of a 50 percent corporate income tax application in 2023, had increased fourfold by the end of 2023 compared to 2022, reaching UAH 87 billion. The sector continued to grow in 2024, posting a net income of UAH 106 billion as of August, a 12 percent increase from the same period in 2023. These high profits are due to a growing deposit base and banks’ investments in government bonds and NBU certificates of deposits, which currently offer an interest rate of 13 percent (down from 15 percent at the end of 2023). Credit provision to the private sector has picked up since late 2023 in line with a reduction in key policy rates and has been broad based across firm sizes, with the share of loans subsidized through state programs declining from 40 to 35 percent between mid-2023 and mid-2024. However, significant risks persist both on the asset and liability sides. On the asset side, loss of assets poses a medium-term risk to solvency. Non-performing loans (NPLs) dropped to 33 percent in August 2024, after peaking at 37 percent of loans at end-2023. The NBU’s 2023 resilience assessment found that most banks adequately assessed potential credit losses and provisioned accordingly. However, additional provisions and related recapitalization needs may be required stemming from a possible deterioration of the macroeconomic situation, further course of the hostilities, as well as an independent asset quality review (which will be conducted when conditions allow). On the liability side, risks arise from a concentration of deposits in short maturity, making the sector vulnerable to sudden changes in confidence. At the end of 2023, on-demand deposits accounted for 67 percent of all deposits, with less than 7 percent of deposits having a maturity of over 1 year.

B. Macroeconomic Outlook and Debt Sustainability

15. The baseline scenario indicatively assumes that active hostilities continue throughout 2025. These assumptions adjust the baseline presented in the first operation of this programmatic series by assuming that active hostilities continue for an additional year. For 2024, growth is still projected at 3.2 percent, which balances tailwinds resulting from positive trade, harvest, and industrial output indicators with the adverse impacts of lower energy capacity and associated power outages, especially during the winter months, and of continued attacks. Growth in 2025 is projected to decelerate to 2 percent, as the output gap closes (thus reducing opportunities for rapid growth acceleration), and as protracted hostilities exacerbate labor, energy, and other input shortages, thus reducing opportunities for growth drivers other than consumption-driven retail trade and those financed by government demand. Starting from 2026, Ukraine’s economic growth is projected to accelerate to 7 percent under the baseline assumption as the economy transitions towards a peacetime economy, and expenditure sentiment shifts from consumption towards investments in reconstruction and productive capacity. On the supply side, this shift is projected to benefit manufacturing and the construction sectors, with a modest growth impulse expected for agriculture. Inflation is expected to continue picking up throughout 2024 to reach 9.3 percent at the end of the year, before declining gradually.

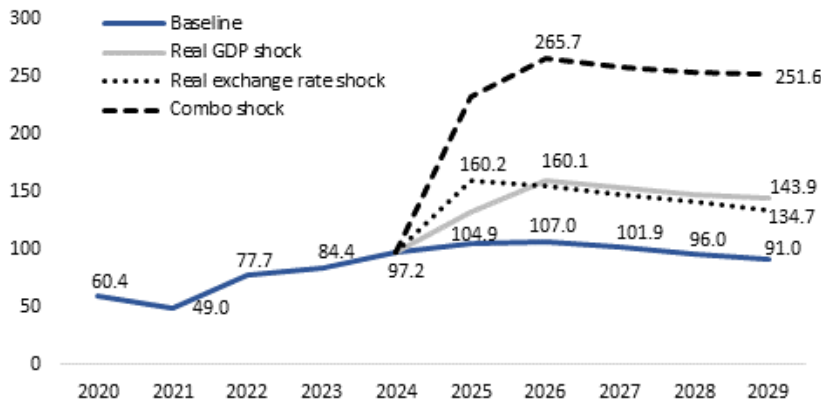
16. The fiscal deficit is projected to remain above 20 percent in both 2024 and 2025. The 2024 deficit (excluding grants) is expected to reach 24.5 percent of GDP, 1.6 percentage points lower than in 2023. This reduction is largely driven by defense spending, which, for all of 2024 according to the recently approved budget amendment, is expected to remain roughly unchanged in nominal terms compared to 2023. Coupled with a projected nominal GDP growth of 15.5 percent, this results in a 10.7 percentage point decrease in the expenditure share, bringing it down to 63.7 percent of GDP. However, revenues, which in 2023 were bolstered by a 13 percent of GDP profit transfer from budgetary institutions, including the NBU, are expected to decline as these one-off non-tax revenues subside and return to their usual levels. Tax revenues are projected to rise to 36 percent of GDP in 2024, with modest growth thereafter as Ukraine implements measures outlined in the National Revenue Strategy. In 2025, the deficit (excluding grants) is forecasted to remain high at 20.1 percent of GDP, consistent with the nominal figures in the draft 2025 budget, as spending pressures persist,



keeping expenditures elevated while the revenue base remains similar to 2024. From 2026 onward, the fiscal deficit is projected to narrow under the assumption that conditions would allow for a steep reduction in the military budget, reflected in an about 10 percentage points of GDP reduction in goods and services and wage spending by 2027 compared with 2023. Nonetheless, the deficit is likely to remain above 2021 levels in the medium-term due to increased capital expenditures starting from late 2025.

17. External assistance from Ukraine’s international partners is expected to remain the main source of financing to meet Ukraine’s fiscal needs. The coalition of international donors supporting Ukraine has provided financing assurances until the end of the on-going IMF program in 2027. These assurances cover Ukraine’s baseline and downside financing gaps between 2023 and 2027 as estimated by the IMF, which amount to US\$151 billion and US\$187 billion, respectively, as of the program’s fifth review. For 2024, the fiscal projections assume that all financing committed by Ukraine’s international partners will disburse before the end of December, so that Ukraine would receive grants and gross loans amounting to 5.8 and 17.5 percent of GDP in 2024, respectively. The latter would also cover 2.3 percent of GDP in external amortization payments, resulting in net external loan receipts of 15.2 percent of GDP. This is projected to be complemented by 3.5 percent of GDP of net domestic borrowing. In 2025, the baseline projections assume that external loans extended by G7 countries will be the main financing source, providing 18.3 percent of GDP in net financing. These loans would continue to provide financing throughout the projection period, reducing the need for domestic financing.

Figure 1: Debt Sustainability Analysis: PPG, percent of GDP under different scenarios



Source: World Bank Staff estimates.

18. Ukraine’s current account deficit is projected to continue widening until the end of 2025. The current account deficit for 2025 is projected to widen to 13.3 percent of GDP, or US\$25.2 billion. This increase is driven by (i) a moderate widening of the trade deficit as the economy approaches its maximum export potential, while consumption and defense-related demand continue to grow, and (ii) a sharp reduction in grant receipts as official financing shifts increasingly toward loans. Primary income, including remittances, is expected to remain stable. In the medium term, the current account deficit is projected to narrow to 6.3 percent of GDP by 2027, as exports gradually increase, and defense-related imports are replaced by reconstruction materials. Imports are projected to continue increasing in nominal terms, albeit at a slower rate than aggregate GDP, leading to a declining share. The current account deficit is expected to be financed by external loan receipts, supplemented by stronger FDI inflows starting in 2026. Official forex reserves are projected to rise steadily throughout the forecast period, reaching US\$49.6 billion by 2027 (equivalent to 5.4 months of imports), supported by external loan inflows and reduced currency market interventions due to a more flexible monetary policy.

19. Public debt is sustainable on a forward-looking basis when considering the authorities’ efforts to complete a debt treatment, the fiscal trajectory under the IMF program, and the concessional financing flows committed by donors. The Debt Sustainability Analysis (DSA) finds that Ukraine’s high financing needs and existing debt stock result in PPG debt



climbing to above 100 percent of GDP in 2025 and receding only gradually to 91 percent of GDP by 2029 under baseline assumptions.⁵ The DSA also highlights the sensitivity of the debt trajectory to future GDP and exchange rate shocks (Figure 1) and metrics under the DSA indicate that debt risks remain high. Restoring debt sustainability requires restructuring the remaining private external debt, including the outstanding GDP warrants, and the completion of the debt treatment of official bilateral debt, for which creditors have committed to provide a level of debt relief necessary to achieve debt sustainability, with a target for debt of up to 65 percent of GDP in 2033 and gross financing needs of up to 8 percent of GDP on average between 2028 and 2033.⁶

20. An illustrative downside scenario highlights the vulnerability of Ukraine’s economic trajectory to external financing shortfalls and an extension of the active hostilities beyond 2025. Compared to the baseline, the downside scenario assumes that active hostilities continue through 2026, with prolonged active combat and significantly greater infrastructure damage, including to the energy sector. This scenario would also see more severe labor market challenges and increased migration abroad. Economic activity would be severely hampered by disruptions and logistical bottlenecks in 2026, causing growth to stagnate at zero. Macroeconomic imbalances would worsen, with intensifying price pressures potentially pushing inflation above 10 percent in 2026. Persistently high military spending would keep the fiscal deficit, excluding grants, elevated at around 20 percent of GDP, adding an additional US\$30 billion to fiscal financing needs. To meet these needs, the government would require substantial and sustained donor support—though this too carries significant risks—and further mobilization of domestic resources, including higher taxes. Furthermore, protracted hostilities would undermine growth potential, leading to a less robust recovery in 2027.

21. The macroeconomic outlook remains subject to exceptional risks. The first source of risk is the evolution of the active hostilities, which, if expanded in intensity or geographically, could lead to a renewed GDP contraction and additional fiscal needs. Attacks especially on the energy infrastructure pose continued risks to economic activity and to the budget, as short-term repair needs may divert resources from other expenditure areas, including social spending. Second, Ukraine’s fiscal situation remains fragile and depends on the timely disbursement of committed financing to avoid financing gaps or liquidity shortfalls. Both delays and shortfalls in assured financing could trigger immediate fiscal pressures that could necessitate either a reduction in social spending, the accumulation of arrears, or the need to seek short-term financing from the Central Bank. At the same time, elevated levels of external borrowing in the context of recent and expected treatments of external debt pose medium-term risks. Third, while the financial sector has remained stable, it remains critically dependent on official external capital inflows to maintain its liquidity buffers. It is also vulnerable to sudden changes in confidence, which can be triggered by domestic or international developments, and could threaten the liquidity position of banks unless adequate contingency plans are in place. While most of these risks cannot be mitigated, the authorities’ adaptive economic management to date, the development of contingency plans, and the accumulation of a sizable stock of foreign exchange reserves provide some short-term buffers.

C. IMF Relations

22. Ukraine has an on-going IMF Extended Fund Facility Program that is on track. The program, approved in March 2023 provides access of US\$15.6 billion until 2027 and is structured into two phases. The first phase is on-going and focuses on strengthening fiscal, external, price and financial stability. The second phase would focus on the longer-term structural agenda when the period of exceptionally high uncertainty has ended. On October 18, 2024, the IMF Executive Board approved the fifth review of the program, enabling the disbursement of US\$1.1 billion, and emphasizing economic resilience and strong program performance, with quantitative performance criteria and structural benchmarks met. On November 19, 2024, IMF staff and the Ukrainian authorities reached a staff-level agreement on the sixth review of the EFF program.

23. To support reform implementation and ensure that contingencies are in place in case downside risks materialize,

⁵ These projections do not assume a treatment of non-Eurobond private debt and official bilateral debt.

⁶ IBRD loans, as well as bilateral guarantees to IBRD loans, are excluded from the treatment perimeter for Ukraine.



the authorities have proposed to include 10 additional structural benchmarks during the fifth review. To respond to potential financial sector shocks, the NBU has reviewed key financial and operational risks to financial sector stability and updated contingency plans, and completed the corresponding structural benchmark under the IMF program, by end-October 2024. Additional structural benchmarks added will help implement the fiscal structural agenda, including advancing on governance reforms.

III. PROPOSED OPERATION

A. Link to Government Program, Country Program Update, other WBG operations, and Corporate Priorities

24. The government's reform priorities center around the ambition of EU accession and strengthening economic growth. While the authorities prioritized macroeconomic stability in the immediate aftermath of February 2022, their focus has since shifted to balance stability with efforts to accelerate growth, recognizing that higher GDP per capita levels are needed for EU accession and to enhance the country's self-reliance. These priorities are articulated in the "white paper on immediate economic priorities for growth", that was presented for the Ukraine Recovery Conference in Berlin 2024. This outlines four target areas: (i) macroeconomic stability; (ii) addressing binding near-term growth constraints in security, energy, access to markets, labor, and logistics; (iii) increasing economic potential (including through reforms to the business environment, government capacity, and market regulation); and (iv) institutional alignment with the EU. Development partner programs (including the EU's Ukraine Plan and Ukraine Facility, the IMF EFF program, and this DPO series) have coordinated to support complementary elements of these priorities. In addition to the white paper, the authorities have also developed an online tool, the "reform matrix", which acts as a repository of reform priorities and commitments and allows for the tracking of approval and implementation status.

25. This operation supports key priorities outlined in the government's white paper. Pillar 1 of this operation supports efforts to strengthen growth potential. Efforts to reduce the state footprint in key markets and enhance the productivity of State-Owned Enterprises (SOEs) supported in this pillar are designed to enhance productivity and improve the business environment. Legislation that encourages increased renewable energy generation enhances the security and sustainability of one of the most critical production inputs. Financial sector reforms aim at improving credit provision and thus the build-up of capital, which directly enhances the economic potential. Pillar 2 supports elements of macroeconomic stability, including by enhancing revenue potential and safeguards in public procurement, while maintaining a line of sight to Ukraine's sustainable growth potential.

26. This DPO builds on reforms supported during the first operation of this programmatic series. The first operation supported a reform to enhance the corporate governance of SOEs through enactment of law #3587-IX (DPO1-prior action (PA) 1). This law is under implementation, including through the preparation of a State Ownership Policy, which has undergone consultations and is currently under review by the Cabinet. Progress has also been made on implementing law #3220-IX and resolution #227 (DPO1-PA2 and PA3) to reform renewable energy tariffs, with 28 regulatory acts approved in the first half of 2024 and final implementation steps supported by this DPO. The introduction of agrarian notes (law #3586-IX, DPO1-PA4) is on track for operationalization in early 2025 (as envisioned in the law), with progress made on secondary legislation and the establishment of an IT system. Reforms to the 5-7-9 program, which restrict access to small- and medium-sized enterprises (SMEs) (DPO1-PA5), continue to be operational. DPO1 also supported the submission of legislation aligning customs procedures with EU regulations; this law was enacted and published in the official Gazette on October 18, 2024. A pilot mass valuation of land, initiated with DPO1 support (DPO1-PA7), was completed in October 2024, and updated valuations from the pilot have been published (supported by this DPO). Similarly, the update of automatic risk indicators (DPO1-PA8) has been successfully integrated in the e-procurement system (supported by this DPO). Finally, implementation of the International Organization of Securities Commissions (IOSCO) law (DPO1 – Policy Action), which was enacted in late March 2024, is progressing, including through organizational changes in the National Securities and Stock Market Commission (NSSMC).

27. The DPO is part of the WBG effort to support the people of Ukraine which has mobilized over US\$50 billion since



February 2022. The WBG engagement is guided by the Ukraine Country Program Update, submitted to the Board in June 2023 and updated in a note circulated together with this DPO, which identifies maintaining essential public services and relief efforts, supporting repair of critical infrastructure, sustaining the private sector, and supporting key reforms for sustained economic growth as priorities. Consistent with WBG priorities, the reforms supported in this DPO series contribute to attracting private investment, including in renewable energy, and to facilitating credit flows to the private sector. Prior actions 1, 3, 4, and 5 have been confirmed as Maximize Financing for Development-enabling (MFD-e), as they address binding constraints to private sector solutions, including by enabling private competitive entry into the railway sector (prior action 1), promoting competition in the renewable energy sector (prior action 3), increase the production of renewable energy sources (prior action 4), and supporting farmers' access to credit (prior action 5). Among them, prior actions 3, 4, and 5 are also confirmed as Private Capital Enabled (PCE).

28. The proposed operation is aligned with the goals of the Paris Agreement. The program is consistent with Ukraine's climate commitments, the Nationally Determined Contribution (NDC), Long-term Low Emissions Development Strategy, and Environmental Security and Climate Adaptation Strategy to 2030. On mitigation goals, all prior actions are at low risk to cause a significant increase in greenhouse gas (GHG) emissions or cause any persistent barriers to transition to low-GHG emissions development path. Reforms under Prior Actions 1, 3, and 4 will support the green transition in the transport and energy sectors by increasing the share of railway transportation and renewable energy. While reforms under prior actions 2 and 6 (support private sector participation in banking sector and improve the access to finance for private sector) may contribute to increased economic activities, the reforms correspond to international practices and the emission-intensive activities are not specifically supported. Considering that the emission-intensive activities are not specifically supported, increased private sector participation in Ukrainian economic development is likely to contribute to long-term increased efficiency and reduction of GHG emissions. All other prior actions are not likely to have an impact on Ukraine's GHG emissions or create persistent barriers to a low-carbon development. Regarding adaptation and resilience goals, risks from climate hazards are not likely to have an adverse effect on any prior action's contribution to the program development objective (PDO). Therefore, all prior actions of the proposed DPO program are aligned with the mitigation and adaptation and resilience goals of the Paris Agreement. A detailed review is presented in Annex 2.

29. The design of this operation has benefited from lessons learned from the Economic Recovery DPO series, as presented in the series' Implementation Completion and Results Report (ICR). The ICR suggests that advancing and safeguarding difficult sectoral reforms requires sustained engagement and technical support, as well as financing and close coordination with international partners. This operation is designed as a programmatic operation to ensure sustained engagement, is closely aligned with international partners to enable complementarities, and is designed in consideration of and in complementarity with the World Bank's sectoral engagement. The operation also incorporates a key lesson reflected in the WBG's FCV strategy, which highlights that it is important to remain engaged during conflict and crisis situations.

B. Prior Actions, Triggers, Expected Results and Analytical Underpinnings

Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth

Prior Action 1: To enhance the competitiveness of the railway market, the Borrower, through its Cabinet of Ministers, has submitted to the Verkhovna Rada, a draft law on railway transport that enhances competitive entry opportunities into the railway sector and improves its governance, as evidenced by Draft Law No. 12142, submitted to the Verkhovna Rada on October 21, 2024.

30. Rationale: Ukraine's railway sector is both a source and enabler of growth, but its current regulatory framework is not conducive to the attraction of private investment and the realization of productivity gains. Transport is a vital sector for Ukraine's economy, directly contributing over 4 percent to total GDP in 2023 and accounting for 7 percent of production inputs used across the economy. Rail transport handles over 60 percent of Ukraine's freight (150 million tons in 2023), including nearly half of the country's exports, particularly vital commodities like grain, iron, and steel. It acts as a key lifeline for domestic and international travel, with about 25 million people transported in 2023. The railway sector



is also a major source of jobs, employing over 193,000 people through Ukrzaliznytsia (UZ), the country’s largest state-owned enterprise. UZ itself is a major contributor to output, accounting for 1.4 percent of GDP in 2023. However, the dominance of UZ as a vertically integrated monopoly limits opportunities for private investment, reduces UZ’s incentive to invest in productivity gains that could lower logistics costs for firms, and has resulted in a score of 94 in the World Bank and World Trade Organization index on railway service trade restrictiveness (with 100 signifying a fully closed sector). These constraints are, for instance, visible in UZ’s maintenance record, with 6,000 km of track needing repair, and over 80 percent of the rolling stock past its useful life. Significant investment is also required to enable low-emission logistics, as railways are essential for reducing greenhouse gas emissions in line with Ukraine’s climate goals.⁷

31. Substance of the prior action: This prior action supports the progressive opening of Ukraine’s railway market to private train operators in the spirit of the EU Acquis. This new market structure requires the financial and organizational unbundling of UZ into an infrastructure operator and separate carriers for freight and passenger transportation. It also requires the infrastructure operator to be financially and organizationally independent from any carrier to ensure transparent and non-discriminatory access to the railway infrastructure. The new law creates the essential institutional bodies to regulate railway transport activities from the economic and technical standpoints. In terms of tariffs, it specifies that for infrastructure access they can be set independently by the operator but are subject to oversight and regulation by the National Commission for State Regulation of Transport. Transport tariffs are divided into commercial tariffs, which can be negotiated between service providers and purchasers, and tariffs for socially significant passenger transportation on select routes, which are subject to regulation to ensure affordability for passengers. The law contains the option for socially significant passenger transport services to be supported by the public sector through “Public Service Obligations”. Considering the significant changes to the market structure, the law envisions a transition period. Specifically, most of its components will enter into force five years after the lifting of martial law, and the full opening to private operators will happen two years from the law’s entry into force. At the same time, the law sets specific milestones to prepare the sector reform: (i) within one year after the adoption of the law, an action plan to reform UZ should be adopted; (ii) within three years after the lifting of martial law, essential entities to regulate the railway sector should be created and the separation of infrastructure manager and train operators should be implemented; and (iii) within five years after the lifting of martial law, all the legislative and regulatory framework should be completed.

32. Changes since DPO1: Since approval of DPO1, the authorities and the EU have commenced accession negotiations. As part of these, they are actively engaging with the European Commission on ensuring that the updated railway law is aligned with the EU Acquis. To enable these discussions to advance, the prior action has been changed to reflect submission to parliament of a draft law. This approach provides space for the EU and the authorities to finalize the specific provisions required for EU alignment in the parliamentary consideration process before enactment, while maintaining a line of sight to the DPO’s intended development impact of opening the railway market.

33. Expected results: This reform is expected to provide a conducive framework for private sector investment in the railways sector and enhance the market orientation of UZ, and thus increase its productivity. This, together with DPO1 prior actions, is expected to contribute to improved SOE performance, captured in the results framework by a UAH14.9 billion increase in dividends paid by SOEs to the government as a proxy for their profitability.

Prior Action 2: To streamline the state’s participation in the banking sector, the Borrower has enacted a law establishing the legal parameters for the privatization of state-owned banks and aligning privatization procedures with international practice, as evidenced by Law No. 3983-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.

34. Rationale: The structure of Ukraine’s financial sector is balancing a systemic role of SOBs with the need for gradual privatization to facilitate private credit flows. Credit provided to the private sector by banks in Ukraine stood at only 14 percent of GDP in 2023, significantly lower than in aspirational peers like Poland (35 percent of GDP) and the EU overall

⁷ This analysis is based on the FY24 Ukraine Transport Advisory Service and Analytics (ASA) and the “Restoring Ukraine’s Economic Growth” ASA.



(79 percent of GDP). The growing presence of SOBs, which accounted for 53.6 percent of net banking sector assets at the end of 2023, is a potential driver of this, as it undermines the efficiency of financial intermediation and weakens the competitive environment, especially as the SOBs are burdened with high NPLs and have significant and increasing exposure to sovereign and state companies' debt, with their holdings of government bond increasing by 38 percent between December 2022 and May 2024. The large state footprint also means that the non-banking sector remains underdeveloped, limiting alternatives to bank financing and making the private sector vulnerable to external shocks.⁸ At the same time, SOBs have been playing a macro-critical role since 2022 by providing financing to the government (directly through purchases of debt and indirectly through the taxation and transfer of their profits) and enabling a continued confidence in the banking system.

35. Substance of the prior action: This prior action supports the enactment of a law that lays out the parameters of a SOB privatization process that is designed to balance the dual needs of the economy. The law envisions a three-step process. As a first step, the banks' shares will be prepared for sale, including by appointing an independent sales advisor and by implementing measures to enhance the banks' attractiveness to investors which may include offering larger share blocks to attract strategic investors, selling off non-core assets, resolving NPLs, and strengthening management structures. Second, privatization auctions for select SOBs will be conducted through secure and transparent online platforms, allowing for domestic and international participation. Auction data will be publicly accessible to enable real-time monitoring. Starting prices will be approved by the Cabinet of Ministers and the winning bid must meet or exceed the starting price. Third, the sale will be finalized through purchase agreements. All proceeds from the sales will go to the state budget. The process is designed to balance the role that some SOBs play for state financing with a gradual privatization of the sector by (i) starting with smaller SOBs, (ii) concurrently reducing other SOBs' exposure to government debt once the situation allows, and (iii) maintaining a medium-term target towards the completion of transactions.

36. Expected results: This prior action is expected to advance SOB privatization proceedings and thus enhance competition and, through this, productivity in the banking sector, captured in the results framework through the appointment of a sales adviser, ultimately contributing to improved credit provision.

Prior Action 3: To promote renewable energy generation, the Borrower, through its National Energy and Utilities Regulatory Commission ("NEURC"), has improved the necessary bylaw for the implementation procedures for the transparent auction-based incentive mechanism for renewables, as evidenced by NEURC Resolution No. 1381, dated July 26, 2024.

37. Rationale: Expanding renewable generation is critical for Ukraine's decarbonization strategy and to ensure energy security and independence. With its abundant natural resources, including wind, solar, and biomass, Ukraine can generate substantial renewable energy, safeguarding its energy independence, protecting generation capacity from concentration and thereby reducing vulnerability to attacks, and contributing to global climate neutrality as well as the EU's energy security. Realizing this potential requires a favorable regulatory environment that provides effective incentives to invest in renewable generation capacity. The law "On Amendments to Certain Laws of Ukraine on the Restoration and Green Transformation of the Energy System of Ukraine" (law#3220-IX), supported in the first operation of this programmatic series, introduced an auction-based feed-in premium mechanism, which promotes competition and allocates renewable energy generation rights to the lowest-cost bidders. When implemented, this will replace a feed-in tariff that prevented proper price discovery, was fiscally costly, and prone to capture. For this to become operational, secondary legislation is needed that regulates purchasing arrangement under the updated tariff procedures.⁹

38. Substance of the prior action: The prior action supports the adoption of NEURC Resolution #1381, which updates the bylaw needed to implement Law No. 3220-IX. This resolution approves and updates standard agreements – the standardized contracts for transactions between electricity producers, universal service suppliers, and the guaranteed

⁸This analysis is based on the "Restoring Ukraine's Economic Growth" ASA.

⁹This analysis is based on the "Ukraine Private Sector Opportunities for a Green Resilient Reconstruction 2023" report.



buyer and the transmission system operator specified in the regulator’s bylaw – to align them with the updated provisions in law #3220-IX, including those regulating (i) the participation of private electricity producers in the balancing group of the guaranteed buyer,¹⁰ (ii) support to renewable energy production under the new market premium mechanism, and (iii) the purchase and sale of renewable electricity at the feed-in tariff. It obliges market participants to align their bilateral contracts with the provisions in the new standard agreements and requires the guaranteed buyer to support market participants under the feed-in and the market premium mechanisms for renewable energy to become accredited users of the registry of guarantees of origin for electricity. The latter was created as part of the implementation of law #3220-IX and is critical to enable the verifiability of renewable energy.

Prior Action 4: To increase the production of diverse sources of renewable energy and to promote integration with European energy markets, the Borrower has enabled the export of biomethane, as evidenced by Law No. 3613-IX, dated March 20, 2024, and published in the Official Gazette on May 15, 2024, and Ministry of Finance Order No. 380, dated August 1, 2024.

39. **Rationale: Ukraine has high potential for biomethane production and exports which it has so far not been able to exploit, partially due to regulatory constraints.** Biomethane is a source of carbon-neutral energy, the production of which is aligned with the principles of a circular economy as it converts agricultural byproducts and household waste into energy. Two factors provide Ukraine with a comparative advantage in biomethane production. First, the country's agricultural sector generates a substantial quantity of biomass, including crop residues, livestock manure, and food waste, which can be converted into biomethane through anaerobic digestion. Most of the potential comes from crop residues and maize silage. Second, Ukraine's existing gas pipeline infrastructure could provide a direct route for exporting biomethane to the EU’s rich demand market. In 2023, Ukraine and the EU signed a Memorandum of Understanding to develop a Strategic Partnership on Biomethane, Hydrogen and other Synthetic Gases which envisions the creation of a hydrogen corridor connecting Ukraine and the EU by 2030, which will contribute significantly to the EU's goal of achieving a 35 billion cubic meter biomethane supply, primarily through imports from Ukraine. Estimates suggest that Ukraine could achieve a production of up to 1 billion cubic meters of biomethane annually by 2030, compared to the current EU annual production of 3-4 billion cubic meter, and could cover 10-20 percent of the EU biomethane market. Despite this potential, only a small portion of available biomass from agricultural residues is currently used for biofuel production, while the remainder contributes to environmental pollution by degrading the soil and groundwater.¹¹

40. **Substance of the prior action: This prior action supports the enactment of a law and an implementing regulation that will enable the export of biomethane.** Prior to this law, Ukraine banned the export of natural gas produced in Ukraine. Its enactment lifts this ban for biomethane and aligns the customs process for its export with the existing procedures for natural gas, ensuring a uniform framework for both. It also defines the measurement unit of biomethane at entry and exit points on Ukraine's customs border, aligning it with the standard practice for natural gas.

41. **Expected results for prior actions 3 and 4:** The proposed reforms are expected to encourage renewable energy production, foster market development, and ensure Ukraine's alignment with European energy standards. The result framework targets a level of 350 MW of new renewable energy generation capacity enabled,¹² and the export of 10 percent of Ukraine’s domestic biomethane production.

Prior Action 5: To improve credit flow and facilitate efficient support for the agricultural sector including disaster relief, the Borrower has enacted a law to operationalize and regulate the access of data by banks in the State Agrarian Registry and the

¹⁰ The guaranteed buyer is an agency that purchases electricity under the updated tariff mechanism and re-sells it on the day-ahead and intraday markets

¹¹ This analysis is based on the “Ukraine Private Sector Opportunities for a Green Resilient Reconstruction 2023” report.

¹² This results indicator was revised from “Total renewable energy generation awarded or contracted” to align with the WBG Corporate indicator for Renewable Energy and, in this way also account for renewable energy projects that have registered for Guarantees of Origin, even if they have not been awarded by auction.



registry's use for public assistance, as evidenced by Law No. 3980-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.

42. **Rationale: Ukraine's agricultural sector is an important growth and export driver but is constrained by limited access to finance and subject to climate-related vulnerabilities.** The agricultural sector accounted for 63 percent of merchandise exports in 2023 and 7.4 percent of GDP. At the same time, it is highly vulnerable to climate-induced shocks, such as floods and droughts. Productivity growth is also hampered by limited access to finance, as banks' inability to evaluate farmers' land ownership titles prevents many farmers from using their land as collateral. This lack of finance also hampers the adoption of climate-friendly and climate-adaptive technologies, hindering adaptation efforts. As part of the comprehensive land reform in 2021, which opened land markets for private sales, the authorities established the State Agrarian Register in August 2022, which is an online database of agricultural producers and is intended as a one-stop information platform to facilitate information flow between stakeholders in the agricultural sector (the government, farmers, banks, and input providers). The database currently facilitates the implementation of over 50 support programs as of September 18, 2024, with more than 176,000 agricultural producers registered, but is not yet fully operational.¹³

43. **Substance of the prior action: This operation supports approval of a law that fully operationalizes information flows through the State Agrarian Registry.** The supported law establishes the State Agrarian Register as the main electronic system that centralizes agricultural data, including information about land use and ownership. In doing so, it will serve as a communication hub between agricultural producers and the government, creating a transparent mechanism for providing support and streamlining access to programs. The law, in particular, regulates the use of the registry to provide support in the case of external shocks, such as climate-induced natural disasters, including by allowing for the provision of budget subsidies and compensation for recovery expenses. This fills an important gap, as currently no harmonized mechanisms to provide swift support in response to climate-induced disasters exists. The law also enshrines financial institutions' ability to access and generate extracts from the registry with the consent of the registered entities and within agreed-upon parameters in legislation, providing them with information to assess the creditworthiness of applicants, thereby allowing them to evaluate collateral and addressing barriers to finance through a clearly regulated process. The law will also continue to support and help monitor the implementation of the 5-7-9 program, and financing through agrarian notes, both of which were supported under the gender-tagged DPO1, and which are addressing barriers women face in accessing finance. Continuing to support these reforms is critical as (i) more women have been taking over family businesses while men are serving in the military, and (ii) disproportionate obstacles to accessing finance have been further exacerbated by the war. Progress will be tracked through result indicators 5 and 7, as evidenced by the recent introduction of a gender-tracking system under the 5-7-9 program which shows that 21 percent of beneficiary firms were female-headed.

44. **Expected results:** In addition to improving the resilience to climate shocks, the supported reform is expected to enhance credit flows to the agricultural sector, measured through a UAH34 billion increase in outstanding loans.

Prior Action 6: To encourage credit flows to the private sector, the Borrowers has enacted: (i) a law on bankruptcy procedures that facilitates the restructuring and recovery of businesses before they become insolvent, as evidenced by Law No. 3985-IX, dated September 19, 2024, and published in the Official Gazette on October 23, 2024; and (ii) a law that establishes standards for and regulates rating agencies, as evidenced by Law No. 3981-IX, dated September 19, 2024, and published in the Official Gazette on October 19, 2024.

45. **Rationale: Ukraine's financial sector regulation is not aligned with international standards in critical areas such as bankruptcy proceedings and the regulation of rating agencies, which discourages debt financing.** With regards to bankruptcy procedures, a central issue is the length and complexity of the process, which can take years to resolve due to delays and appeals, making it difficult for creditors to recover their debts. The unpredictability is exacerbated by late

¹³ This analysis is based on the "Ukraine Private Sector Opportunities for a Green Resilient Reconstruction 2023" report.



filings, inconsistent court rulings and the conduct of insolvency administrators. Although Ukraine’s regulatory framework contains one article in the law that opens the door for preventive restructuring,¹⁴ this mechanism is rarely used due to the lack of operational clarity. As a result, creditors and businesses facing financial difficulties have limited access to effective restructuring mechanisms, increasing the risk of low recovery outcomes for creditors. The operation of credit rating agencies in Ukraine is also not compliant with international standards. They are regulated by the NSSMC and are tasked with providing credit ratings that assess the creditworthiness of firms or public entities. They are critical to support the development of corporate bond markets, which can become an important alternative source of debt financing for corporations. Currently, there are no strong regulatory requirements for credit rating agencies or the ratings they issue, particularly regarding the transparency of rating methodologies, management of conflicts of interest, and regulatory oversight. This lack of regulation has undermined confidence in ratings in Ukraine.¹⁵

46. Substance of the prior action: The proposed prior action supports two laws that will facilitate preventive restructuring and align the regulation of rating agencies with EU standards. Law No. 3985-IX clarifies and regulates preventive restructuring procedures, thereby enhancing compliance with EU Directive 2019/1023 that emphasizes this approach as the preferred method for averting insolvency for viable firms. Specifically, the law allows debtors facing insolvency threats to initiate restructuring with court approval. The process involves submitting a restructuring plan or concept, which must be negotiated with and approved by creditors and the court. An appointed administrator may assist in plan development and monitoring. Protective measures, such as a moratorium on bankruptcy proceedings and asset disposal restrictions, support the debtor during negotiations. Importantly, the framework also introduces interim and additional financing provisions to support the debtor’s recovery, along with cross-class cramdown provisions to enable the approval of a restructuring plan even in the face of dissent from certain creditor classes. The approved plan binds all affected creditors and requires regular reporting to the court. A simplified preventive restructuring procedure is available for compliant debtors. Second, this operation supports the enactment of Law No. 3981-IX, which regulates accreditation procedures for rating agencies and sets quality and integrity standards. It also outlines clear principles establishing mechanisms for preventing conflicts of interest, ensuring transparency of ratings and methodologies, protecting confidential information, and introducing appropriate oversight and regulation.

47. Expected results: The proposed reform improves Ukraine’s alignment with international standards in terms of capital market regulation. The results framework measures the total number of cases successfully using preventive restructuring procedures for improved bankruptcy procedures (with a target of 10 by end 2026), and the assessed compliance by the International Organization of Securities Commissions of the regulatory framework with its established principles.

Prior Action 7: To improve the integrity and competency of customs leadership, the Borrower has enacted a law reforming the leadership selection procedure for the head of the State Customs Service, as evidenced by Law No. 3977-IX, dated September 17, 2024, and published in the Official Gazette on October 18, 2024.

48. Rationale: The State Customs Service (SCS) of Ukraine plays an important institutional role in facilitating trade and generating fiscal revenues, but its effectiveness is hampered by integrity challenges. In 2023, the SCS contributed over 30 percent of tax revenue through import value-added tax (VAT), duties, and excise taxes. However, its effectiveness is hampered by challenges related to integrity and staff performance. A 2023 survey by the National Agency for Preventing Corruption revealed that 58.3 percent of businesses consider customs reform the top anti-corruption priority.¹⁶ Additionally, the Customs Index survey by the European Business Association and DHL Express found that 25 percent of respondents rated customs services as low quality, with only 13 percent positively assessing customs performance in 2023, down from 24 percent in 2022. Ukraine ranks 92nd out of 138 countries in the 2023 logistics performance index,

¹⁴ Preventive restructuring procedures that aim to avoid bankruptcy by allowing businesses that face financial difficulties to renegotiate their debt before becoming insolvent.

¹⁵ This analysis is based on the “Restoring Ukraine’s Economic Growth ASA”.

¹⁶ This constitutes a 4.7 percentage point reduction compared with 2022.



partly due to inefficient customs procedures. While Ukrainian exporters generally do not cite integrity challenges in customs as a major growth constraint, this may be because Ukrainian firms (especially exporters) are significantly larger and more concentrated than those in peer countries and can therefore more easily overcome customs-related challenges. Prospective exporters and investors have cited corruption in customs as a potential barrier to entry.¹⁷

49. Substance of the prior action: To strengthen the integrity of customs operations, this operation supports a reform of the selection procedure for the head of the SCS. As part of the National Revenue Strategy, the authorities have developed a roadmap for customs reform which identifies the need to increase trust in the SCS, including through reforms to leadership selection. To date, SCS leadership selection was regulated by the procedure outlined in the Civil Service Law, which tasks the Civil Service High Corps Commission (comprised of representatives from the legislative and executive branches of government, as well as from civil society) to select and nominate up to five candidates according to competitive procedures. This procedure has, however, not been implemented recently, with SCS heads appointed on an interim basis. Given these implementation challenges, this reform supports a comprehensive revision of the SCS leadership selection process with increased participation from international experts. The new procedure involves a selection committee formed by six members, three of whom are nominated by international or foreign organizations that have provided technical assistance to Ukraine within the last three years, and three nominated by the Ministry of Finance. The committee evaluates candidates based on their integrity (including assessing whether the candidate's lifestyle aligns with declared income and assets, as well as the legality of the candidate's wealth) and competence. The committee selects two candidates through a sequential voting procedure that requires at least four members to support a candidate, including at least two from the international nominees. The Ministry of Finance then selects the new SCS head among the two candidates, who is subsequently appointed by the Cabinet of Ministers.

50. Changes since DPO1: The original formulation of the trigger during DPO1 intended to support a Cabinet resolution that updates only selection procedures for the head of customs. The authorities have instead opted to enact a law that permanently reforms selection procedures in the customs code.

51. Expected results: The customs reforms supported in DPO1 and DPO2 are jointly expected to support growth by improving customs procedures (DPO1) and reducing integrity challenges (DPO2), and therefore enhancing trade facilitation. The results framework captures improved customs performance through an improvement in the World Bank's Customs Logistics Performance Index by 0.5 points, from 2.4 to 2.9 points.

Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment

Prior Action 8: To advance the alignment of the valuation of the Borrower's land tax base with market values, the StateGeoCadastre has published a land valuation for all commercial agricultural parcels located in regions where sales transactions for such parcels occurred from 2021 through 2024 (obtained as part of the Pilot Project on mass land evaluation) and recorded in the State Land Cadastre, as evidenced by the StateGeoCadastre Order No. 318, dated October 31, 2024, and the published data in the electronic services platform within the StateGeoCadastre official website.

52. Rationale: The land tax is one of the major sources of subnational revenue in Ukraine, but outdated land valuations constrain its revenue potential. Land taxation in Ukraine currently uses the "normative money value" (NMV) of land as the tax base, which is calculated by the StateGeoCadastre and accounts for land quality, distance to infrastructure, parcel shape, and other environmental conditions. Local governments are allowed to impose land taxes of up to 1 percent of the NMV per year on agricultural lands. The opening of land markets in 2021 has led to significant shifts in land values that are not adequately captured by the NMVs, as they do not account for factors such as location and the quality of any structures on the land that determine land values. Research by Deininger and Ali (2023) highlights this gap, showing a low correlation between NMVs and actual market prices, particularly in personal farming, where the correlation is only 0.29 compared to 0.69 for commercial farming. Actual market prices often surpass NMVs significantly, by 600 percent

¹⁷ This analysis is based on the "Restoring Ukraine's Economic Growth ASA".



for personal land and 20 percent for commercial land. By contrast, many Organisation for Economic Cooperation and Development (OECD) countries adopt a capital value system that taxes property based on its market value, including land and built structures, that more accurately captures changes in land use and value.¹⁸

53. Substance of the prior action: This operation supports the publication of updated land values obtained from the mass valuation pilot. The first operation of this series supported the initiation of a pilot mass valuation of land. As part of this, the StateGeoCadastre has experimented with various data-driven land valuation methodologies, including a regression-based approach that calculates land values based on observed land transaction prices. Specifically, this methodology uses data on sales prices for historic transactions between 2021 and 2024 to estimate, via a regression, average land prices per quarter and type of land use for each oblast of Ukraine. To derive valuations of parcels that have not been sold, the StateGeoCadastre uses these regressions to make out-of-sample predictions for land values. This prior action supports the publication, at plot level, of the valuations obtained from the pilot, which exceed existing normative valuations by about 40 percent. These valuations will be used as a consultation tool both within the government and with stakeholders, including landowners, to refine the methodology. As laid out in the Letter of Development Policy of this operation, as a next step the StateGeoCadastre plans to update the statistical model to also include additional predictive factors, such as soil quality, distance to infrastructure, and the presence of structures. The valuations obtained from this will then be used to replace normative monetary values for the purpose of land taxation.

Prior Action 9: To strengthen excise revenue generation from fuels, which also mitigates carbon emissions, the Borrower has enacted a law that approximates excise tax rates on motor fuel more closely with EU minimum levels, as evidenced by Law No. 3878-IX, dated July 18, 2024, and published in the Official Gazette on September 1, 2024.

54. Rationale: Ukraine's excise tax rates on fuels are below EU minimum levels, reducing revenue and limiting their ability to disincentivize the combustion of fossil fuels. Excise taxes are a significant source of revenue for Ukraine, accounting for 9 percent of total tax revenue. Excises globally do, however, not only have a revenue function, but are also applied to the production or sale of certain items to internalize externalities or discourage their use. This is especially relevant for fossil motor fuels, which are the main energy used in the transport sector, which accounts for almost 2 percent of Ukraine's total CO₂ emissions. In March 2022, Ukraine initially suspended the collection of excise taxes on motor fuel, before reinstating them in September 2022 at a rate of EUR100 per 1,000 liters for diesel, gasoline, and biofuels, and EUR52 for liquefied gas. While these rates were increased further to the level in place before February 2022 in July 2023, they remain significantly lower than the minimum recommended by the EU Council Directive 2003/96/EC.¹⁹

55. Substance of the prior action: This prior action supports amendments to the tax code that gradually harmonize fuel excise rates with EU standards. Specifically, Law No. 3878-IX mandates gradual annual increases in excise tax rates on gasoline, diesel, liquefied gas, and alternative motor fuels over the next four years. By 2028, excise rates are set to reach EUR359 per 1,000 liters for gasoline (a 168.1 percent increase compared to September 2024), EUR330 for diesel (236.6 percent), EUR277 for LPG (480.8 percent), and EUR272.4 for other motor fuel (168.1 percent). These increases will take Ukraine's excise tax rates on motor fuels to prescribed EU levels by 2028, in accordance with Directive 2003/96/EU. Full alignment of excise rates with EU minimum levels is expected to raise between 1.5 and 2.2 percent of GDP in additional revenue by 2028. They will also help discourage fossil fuel combustion in favor of emission-free transport options, such as electric vehicles.

56. Expected results: Prior actions 8 and 9 are jointly expected to increase revenue by increasing the land tax base (prior action 8) and excise tax rates (prior action 9). The results framework targets an increase of general government tax revenue to 36.9 percent of GDP by 2026, and of excise tax revenue to 3.8 percent of GDP.

¹⁸ This analysis is based on technical notes prepared as part of the development of Ukraine's National Revenue Strategy.

¹⁹ This analysis is based on technical notes prepared as part of the development of Ukraine's National Revenue Strategy.



Prior Action 10: To improve transparent and efficient procurement, the Borrower: (i) through its Ministry of Finance, has mandated the use of updated automatic risk indicators and their publication as part of the State Audit Service’s regular reporting, as evidenced by the Ministry of Finance Order No. 476, dated September 27, 2024; and (ii) through its Cabinet of Ministers, has submitted to the Verkhovna Rada a draft procurement law to enable expansion and improved efficiencies of the Borrower’s electronic public procurement system, through the introduction of new procedures and optimization of existing procedures, as evidenced by Draft Law No. 11520, submitted to Verkhovna Rada on August 23, 2024.

57. Rationale: Transparent and cost-effective procurement procedures are critical, making it essential to safeguard against corruption and process irregularities. In 2023, Ukraine procured goods and services worth UAH480 billion (US\$11.6 billion equivalent) through its e-procurement platform ProZorro, a threefold increase from the previous year, with over 80 percent of procurement funds now spent through this platform. The system's importance is exemplified by the Ministry of Defense's return to ProZorro for non-armed defense procurements. Overall, competitive bidding through ProZorro has been associated with significant savings and improvements to value for money, with estimates from the system putting savings at UAH 37 billion in 2023 compared to expected values. Given its strategic role in ensuring the supply of goods and services, it is crucial to maintain rigorous safeguards against corruption within this system, especially as multilateral institutions like the World Bank have started to rely on ProZorro as part of an attempt to harmonize procurement practices across the Ukrainian government and development partner systems. However, while the procurement system has a system of risk indicators that are intended to flag process valuations for review by the State Audit Service, their practical use has been limited to date, as flagging was not sufficiently selective to help meaningfully guide investigations. For instance, the initially developed indicators flagged many procurement procedures each month (estimated at 4,000 flags out of a total of 30,000 monthly procedures), making it difficult to follow up on all flagged procedures, and preventing high risk cases from being detected.²⁰

58. Substance of the prior action: This prior action supports the operationalization of updated risk indicators and an update to Ukraine’s procurement law to enhance the system’s transparency and efficiency. The first operation in this programmatic series initiated a process of updating automatic risk indicators in public procurement that flag process irregularities. As part of this process, the authorities have developed 12 new indicators that are more selective than the original ones. They have been piloted and have been found to significantly reduce the number of flagged procedures to about 800, making targeted follow-up more feasible. To enable their use in the procurement system, this operation supports an order by the Ministry of Finance that mandates the use of the updated risk indicators in the ProZorro system and publication of the outcome as part of the State Audit Service’s regular reporting. To complement this, this prior action also supports an update of Ukraine’s procurement law that mandates the integration of these indicators in the e-procurement systems. The law also introduces innovative procurement procedures like the innovation partnership procedure, dynamic purchasing systems, and design contests, which promote more transparent and efficient procurement. Additionally, the law allows for joint and aggregated procurements, revises value thresholds, and removes restrictions on the use of non-price factors in determination of contract awards. It also adapts existing rules, extending mechanisms used during martial law to ensure flexibility, such as allowing bids above the estimated costs value and the optional use of electronic auctions. The law explicitly includes a provision that requires the consideration of costs from greenhouse gas emissions and other factors when evaluating tenders based on the lifecycle cost rather than price alone.

59. Changes since DPO1: The EU and the authorities are undertaking active discussions on chapter 5 of the EU Acquis on public procurement. Achieving full EU alignment will require a comprehensive screening and reform of this framework. Considering this situation, the second part of this prior action was changed to reflect submission of a draft law to Parliament (rather than enactment) to allow for the needed flexibility to complete the EU alignment process.

60. Expected results: Complementing the first operation, the proposed prior action is expected to strengthen

²⁰This analysis is based on technical assistance provided under the “Ukraine: Procurement System Enhancement Project (P180126, RE)”.



procurement transparency and integrity, thus reducing opportunities for the misuse of public funds, and increasing the value-for-money of public spending. The results framework captures, as an intermediate outcome, that the State Audit Service scrutinizes an increased percentage of procurement procedures that were flagged by the risk indicator system (from 11.5 percent in 2023 [using the old indicators] to 20 percent in 2026), subject to a maximum of 2,300 scrutinization procedures to account for capacity constraints in the State Audit Service.

C. Consultations and Collaboration with Development Partners

61. The authorities have carried out consultations with stakeholders on the reforms supported by this operation and feedback has been incorporated. These reforms are part of the Government’s program which has been discussed with civil society, development partners, and the public. The authorities have also explained the rationale, design, and outcomes of supported reforms in the media. The reforms have been included in the publicly available “reform matrix” which allows stakeholders to track progress on implementation. Supported legislative actions have been consulted on and widely debated in Parliament, which remains operational and transparent, with laws published on the Parliament’s website, including explanatory notes, discussions of social, environmental, and fiscal impacts, comparative tables and expert as well as committee opinions. Cabinet-level legal acts are also made publicly available for feedback. The legal content of most supported reforms, including on SOEs, bankruptcy, energy, customs, and the state agrarian registry, reflects multiple iterations of discussions between the authorities, domestic stakeholders, and Ukraine’s international partners, aimed to ensure compliance with international standards while also safeguarding against stakeholder risks.

62. The proposed operation forms an integral part of a large multilateral support program for Ukraine that encompasses, in addition to the WBG, the IMF, the European Union/Commission, and bilateral partners, including Japan, the United States and the UK. The World Bank has coordinated the proposed DPO closely with these partners and has identified complementarities. In addition, the Bank’s support for policy reforms has also benefited at the national level from collaboration with the private sector, academia, and civil society to ensure knowledge sharing and coordination of efforts. The program supported by this operation includes reforms in several areas of on-going International Finance Corporation (IFC) engagement through investments, upstream, and advisory services, notably on bank privatizations, clean energy investment, and agriculture finance. IBRD and IFC teams have collaborated closely on several reforms critical to support private sector resilience and growth, including by leveraging the findings from the IFC-led “Ukraine Private Sector Opportunities for a Green Resilient Reconstruction 2023” report.

IV. OTHER DESIGN AND APPRAISAL ISSUES

A. Poverty and Social Impacts

63. Overall, the policy and institutional reforms supported under the proposed DPO are not expected to result in significant negative household and distributional effects. Many of the supported reforms are expected to improve the efficiency, transparency, and integrity of government procedures and monitoring (PA6, PA7, PA10). Other actions aim to enhance market competitiveness in the banking and railway sectors (PA1, PA2), and promote green energy practices (PA3, PA4). Improving farmers’ access to financing of mortgages (PA5) will empower farmers to invest in their land, leading to positive gains and returns from investments. PA1 related to the opening of the railways sector has potentially larger adverse impacts on households through price changes and job losses, but due to the implementation timelines and yet to be determined pricing schedules, these impacts may not materialize right away. The authorities recognize potential future adverse impacts and are committed to maintain fair passenger railway prices on essential routes, including through the establishment of transparent public subsidies through Public Service Obligations. The latter will improve subsidization of critical passenger routes, which currently relies on implicit cross-subsidies from the cargo sector.

64. Potential significant negative household and distributional effects arising locally from the development of renewable energy projects (PA3) can be managed through the existing country systems. PA3 provides regulations to improve incentives for renewable investment but does not specify concrete projects. Any such projects that will be undertaken in the future will be subject to Ukraine’s country systems, including environmental and social framework



guidelines, safeguards, and existing land laws. Renewable energy projects financed by international financial institutions (IFIs) will be subject to IFIs environmental and social standards, such as the IFC performance standards, that assess and mitigate potential risks. Projects without IFI funding will be subject to Ukrainian law, including requirements for permitting, environmental and social impact assessments and compensation for use of land. Mitigation strategies also depend on the specific renewable energy project, including on where its location and proximity to communities.

65. PA8 on aligning land valuations with market values could have significant distributional impacts on poverty. Research highlights that mean actual market prices exceed NMVs by 600 and 20 percent for personal and commercial land, respectively. While higher land values increase the net worth of landowners (generating wealth effects that can improve access to credit), they also potentially increase their tax burden, unless tax rates are adjusted. To date, the magnitude of the change in the tax burden is unclear, as rates have not yet been set and final land valuations are yet to be adopted. The authorities recognize the potential for negative distributional and poverty impacts and are committed to a consultative process during the finalization of the land tax reform that includes the design of a tax system that reduces the impacts on small land holders and farmers. This will be supported by World Bank technical assistance.

66. The increase in the excise tax for fuel under PA9 is expected to slightly increase poverty rates, but the impacts are small. The reform is expected to disproportionately affect wealthier households, leading to a slight decrease in inequality (0.03 Gini points). However, it is also expected to negatively impact poorer households, by reducing their purchasing power, and thereby marginally increasing poverty (by 0.57 percentage points, national poverty line). The impact on poverty is estimated to be small since fuel is a more common expenditure among higher decile households, and because the incomes of poorer household have benefited from the continued and inflation-indexed provision of social support, including through pensions, which mitigates the impact of price rises. Due to the small residual impact, a new targeted mitigation program is likely not feasible in a cost-effective manner. In the medium term, the higher revenue is expected to protect funding for critical social and infrastructure projects that could benefit the poor.

67. Potential adverse poverty and social impacts that could arise from the supported SOE or tax reforms will be partially mitigated through existing social protection programs. Ukraine has a comprehensive social protection system. This includes a broad pension system that provides protection based on old age, disability, or in the case of the loss of breadwinners. This is complemented by targeted social protection programs for vulnerable households, such as the guaranteed minimum income program, which is means-tested and provides support to low-income families. Critical social assistance payments, including pensions, are financed through the World Bank's Investing in Social Protection for Inclusion, Resilience, and Efficiency Project (INSPIRE) and Public Expenditures for Administrative Capacity Endurance projects, which help maintain them. This system, in conjunction with continued optimization under the INSPIRE program, has proven effective in reducing inequality and the incidence of poverty and provides buffers for households to partially mitigate potential adverse effects of supported reforms.

B. Environmental, Forests, and other Natural Resources Aspects

68. The reforms supported by this operation are not expected to cause significant negative environmental effects. Prior action 1, which supports railway sector reforms, is expected to have a positive impact, by increasing railway traffic safety (including environmental safety) as well as reducing road traffic and greenhouse gas emission. Prior action 3 and 4 target improved renewable energy generation, which is expected to result in positive environmental impacts. Prior action 9 which raises excise rates on motor fuels is expected to have positive environmental impacts by discouraging air pollution and carbon emissions due to the combustion of fossil fuels.

69. Potential adverse effects are expected to be managed effectively through country systems. Prior action 3 targets the enabling of 350 MW of renewable energy capacity by 2026, which may result in localized negative environmental impacts. However, these projects are as-of-now unknown and not supported by the prior action (which focuses on enabling legislation). Any projects will be subject to an environmental impact assessment (EIA) according to the Law of Ukraine "On EIA". Similarly, prior action 4 is expected to lead to the facilitation and increase of the production of



biomethane in the country and its eventual transport via existing transportation systems in and outside the country. These activities are associated with health and safety risks to biomethane production, operation of facilities, and biomethane transport as well as air pollution impacts in case of leaks. Both production and transportation of biomethane are subject to a comprehensive set of environmental/sustainability standards. The legislation supported by prior action 4 stipulates that biomethane can only be exported if a certificate of compliance with the biomethane sustainability criteria and proof of biomethane sustainability are available. These documents confirm that the producer complies with international sustainability standards and are issued by an independent auditor under an international certification scheme. Also, biomethane production requires full-scale environmental impact assessments according to the Law of Ukraine “On EIA” including risk assessment, mitigation, monitoring and reporting to the Ministry of Environmental Protection and Natural Resources (MEPR). The Gas Transportation System has established Environmental Management Policy and Operational Health and Safety (OHS) Policy and is certified by the International Organization for Standardization.

70. Prior action 5, which supports easier access to financing for farmers poses the risk of agricultural expansion and intensification, which could lead to deforestation, biodiversity loss, and soil degradation. Similarly, the updated land valuations could increase pressure for land development, deforestation, biodiversity loss, and intensive land use. These effects can be mitigated through strict enforcement of Ukraine’s environmental protection regulations and the application of environmental and social management systems (ESMS) in the banking sector, which have recently gained traction and are showing results in preventing and managing negative environmental and social impacts of agricultural production. Provisions for commercial banks’ ESMS stipulate that banks are responsible for monitoring environmental compliance of their lending operations. At the same time, an overarching enforcement role (within territories controlled by the government) lies on the MEPR and its State Environmental Inspection (for environmental risk management), as well as State Labor Agency (for OHS risk management). These agencies are understaffed, and routine inspections (by both state agencies) have been suspended during martial law. Non-routine targeted inspections in response to reports of non-compliance remain active. A recent environmental audit for the agricultural sector completed as part of World Bank projects have not found substantial inconsistencies and audit recommendations were incorporated into the design of high-level ESMS that applies to agricultural sector government support programs (including risk assessment, mitigation measures development and supervision, as well as capacity building for banking staff).

C. PFM, Disbursement, and Auditing aspects

71. The PFM system is reliable, the government has made progress in strengthening it in recent years, and it continues to function. Amendments to the Budget Code (2646-VIII of 6 December 2018) established a legal basis for the introduction of a Mid-Term Budget Framework (MTBF). The Government approved a medium-term Budget Declaration for the first time in 2021 and, after having suspended this process since 2022, resumed it in 2024 (for 2025-2027). The latest Public Expenditure and Financial Accountability assessment for Ukraine was undertaken in 2019. It concluded that the Government had made progress in: (i) implementing medium-term budget planning; (ii) increasing transparency in PFM; (iii) integration of International Public Sector Accounting Standards; (iv) improving forecasting tools and fiscal risk management; and (v) introducing a gender-oriented approach to budgeting. Challenges were identified in public investment management, medium-term expenditure framework implementation and budgeting and reporting of the social security fund in the payroll system. To address some of these challenges, the authorities approved a PFM Reform Strategy covering 2022-2025 in December 2021. Based on this, in 2022, the Ministry of Finance (MOF) approved the methodology for preparing budget unit’s proposals for the Budget Declaration, implemented for the Budget Declaration recently approved for 2025-2027.

72. Public access to fiscal information is appropriate. The Chart of Accounts, which underpins budget preparation, execution, and reporting, is comprehensive. Government finance statistics are produced monthly but during the martial law period, publishing of Treasury reports has been suspended. However, the MOF and NBU continue to provide monthly



updates on expenditures and revenue. The MOF also publishes monthly data on the collection and spending of the resources, PPG debt. The MOF created an e-data portal (spending.gov.ua), which provides detailed information on public expenditure, and a web portal of the budget for citizens (openbudget.gov.ua), which provides data on the implementation of state and local budgets. Ukraine scores especially well on budget oversight in the Open Budget Index, with a score of 76 out of 100. Both portals are operational.

73. Ukraine has advanced its public procurement system, but there are areas which could be further improved. The Law on Public Procurement, which was adopted in December 2015, establishes legal and economic principles for procurement of goods and services. Starting from 2016, all public procurements are mandated to be made through the Prozorro centralized electronic procurement system. The tool provides for quick and thorough analysis of information on tenders, with easy and unlimited access granted to civil society. More recently the authorities have upgraded the Prozorro modules to align its functionality with multilateral development banks' requirements for international procedures and have taken steps to train staff and consultants of the implementing agencies. Starting from March 2024, the procurement of goods, works and non-consulting services under Bank financed projects is conducted through Prozorro for national and international market approaches. The Government has also prepared amendments to the Public Procurement Law which are supported by this operation, and which will improve its public procurement system. Areas for further improvements include the introduction of sustainable selection procedures promoting efficiency and value-for-money, enhancement of digital contracting and monitoring solutions, reducing barriers and enhancing knowledge on public tenders to national and international markets. The World Bank is collaborating closely with the Ministry of Economy on continuous enhancements of the public procurement system.

74. The IMF completed safeguards assessments of the NBU in 2015, 2019, and 2023. The assessments confirmed that the NBU has made progress in strengthening its governance and control environment. Its legal framework was amended in 2015, further improving financial autonomy and governance. In addition, its institutional framework has been substantially strengthened and modernized, focusing on core functions, and improving its decision-making processes and internal controls. The NBU also adopted a new ethics code for members of its decision-making bodies and for its staff. A new audit committee was established under the new NBU Council and an internal audit charter has been adopted. To address the credit risks stemming from the financial assistance to domestic banks, the loan management process and related risk management processes were reformed under a new loan management department. The 2023 safeguards assessment found that while the NBU has maintained a broadly strong safeguards framework, governance practices need to be strengthened further. The financial reporting, external and internal audit mechanisms, and risk management all continue to have sound practices.

75. Disbursements. The proposed Loan will be fully guaranteed by the ADVANCE Trust Fund and the Government of the UK. The loan proceeds will be disbursed in one single tranche to the existing treasury account at the NBU, to be used for budget financing, and will form part of Ukraine's official foreign exchange reserves. The proposed loan will follow the WB's procedures for development policy lending. Disbursement will be made upon declaration of loan effectiveness and submission of a withdrawal application to the World Bank. Within seven days of remittance of funds by the Bank, the Government will provide a confirmation to the World Bank that the funds have been received by the treasury account in the NBU and that these funds are available for financing budget expenditures.

76. Additional fiduciary arrangements will be required for this operation. Such additional arrangements will include additional assurance aimed to confirm receipt of the funds into government US\$ account and their further exchange and transfer to the government State Treasury account in UAH, and onward incorporation into the government budget. Such assurance will entail either an independent audit of these steps in the funds flow process, or review by World Bank staff of the mentioned transactions. For the same reason, fiduciary risk is considered high. Given the exceptionally uncertain context, it should be noted that these additional fiduciary arrangements may not fully cover the risks that arise from the sudden large increase in public expenditure combined with martial law-induced relaxation of select PFM procedures that



allow for more flexibility but have also resulted in reduced expenditure transparency.

D. Monitoring, Evaluation, and Accountability

77. **The Ministry of Finance is responsible for the overall coordination of the proposed operation while some of the line ministries are responsible for implementation in their respective areas.** The Ministry of Restoration is responsible for reform on the railway market, while the SOB privatization will be coordinated by the NBU and the Ministry of Finance. The Ministry of Energy is responsible for reforms promoting renewable energy generation. The reform on the agrarian system is coordinated by the Ministry of Agrarian Policy and Food. The Ministry of Justice is responsible for reforms in insolvency and bankruptcy. The NBU and NSSMC have responsibility for implementing reforms on the regulation of rating agencies. The Ministry of Finance is responsible for reforms aimed at facilitating customs processing (in coordination with State Customs Service) and strengthening measures on increasing budget tax revenues. Finally, the Ministry of Finance, the Ministry of Economy and state-owned enterprise Prozorro are responsible for implementing reforms to further ensure procurement integrity and align it with EU standards. The specific expected results indicators, set out in Annex 1, will be used to monitor implementation of the operation. The Bank, in collaboration with the Ukrainian authorities, will monitor and evaluate the program's achievement of these results.

78. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

V. SUMMARY OF RISKS AND MITIGATION

79. **Owing to the unique circumstances, the overall risk of this operation is exceptionally high.** The risks to achieving the development outcome of the proposed DPO have been assessed using the Systematic Operations Risk-Rating Tool (SORT) (Table 4). The achievement of the development objective of this operation depends, first and foremost, on the evolution of active fighting and other related factors that are outside of the authorities' control. This results in high residual risks that cannot be mitigated.

80. **The macroeconomic residual risk to the PDO is rated high.** The inherent macroeconomic risk stems from the risk of external financing shortfalls and sustained attacks, which could extend beyond 2025, with continued fiscal pressure risking a diversion of attention from the implementation of longer-term structural reforms. Fiscal pressure could also arise from a domestic or external shock that causes a sudden change in sentiment and may trigger capital outflows from the country or the banking system. Mitigation measures include policy efforts to strengthen fiscal buffers, including those supported by this operation, the broader international support program, and active contingency efforts, but residual risks remain high. The materialization of such risks could require additional financial assistance to ensure the implementation of the reforms supported by this operation remains on track.

81. **Implementation risks, including from governance, sector strategies and policies, institutional capacity, and fiduciary aspects, are high.** In terms of governance as well as sectoral strategies and policies, achieving the development



outcome requires a multi-year strategic commitment. Risks to this exist, for instance, in the energy sector, where efforts to improve renewable generation and trade may be derailed by renewed attacks on the electricity infrastructure that require a rapid rebuilding of non-renewable capacity. In the railway sector, the market opening will also require a consistent policy commitment over an up to ten-year time horizon. The complexity of some reforms, such as on land valuations and on procurement system updates, requires strong capacity for implementation and monitoring. Both sectoral strategies and capacity risks are mitigated in part by technical assistance provided by development partners and a broad implementation engagement (including through a results-based operation in the transport sector and on PFM). Despite these, residual risks stemming from the potential of sudden changes in political priorities or changing capacity within implementing agencies remain high. Fiduciary risks arise because of increased expenditures combined with adjusted fiduciary requirements under martial law and are partially mitigated through efforts to strengthen the PFM system, including through procurement reforms supported by this operation.

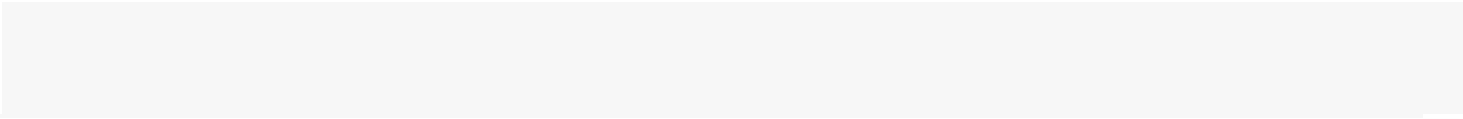
82. **Stakeholder risks are high.** These arise, for instance, as individuals and firms may oppose an increase of excise rates. The unbundling of the railway company may attract opposition from, among others, employees. The revaluation of personal land may face resistance from individuals in regions where significant price increases are expected. Mitigating factors involve strong preparatory work and buy-in to these reforms by the authorities and build-in consultation processes. For instance, the excise tax reform, anticipated in the National Revenue Strategy, the railway reform and the update of land valuations is being implemented gradually and in combination with social measures. Despite this mitigation, residual risks especially on the railway reform remain high, due to the number of affected stakeholders (passengers, employees, and the private sector) and the strength of potential vested interest.

83. **Other risks are high.** Such risks arise from two sources. First, the security situation remains extremely fragile. Active hostilities continue and may escalate to other regions. The threat of attacks on Ukraine’s infrastructure and productive capacity remains high, imposing further unmitigable risks. Second, even if the hostilities subside eventually, risks emanate from uncertainty about the stability of Ukraine’s security situation.

84. **Technical design risks are substantial.** Technical design risks are substantial, as the unique situation generates uncertainty with regards to policy priorities and the authorities’ ability to implement longer-term reforms. The programmatic design, coupled with an active sectoral program, partially mitigates this risk.

Table 4: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● High
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● High
7. Environment and Social	● Moderate
8. Stakeholders	● High
9. Other	● High
Overall	● High





ANNEX 1. Policy and Result Framework

	Prior Actions, Conditions and Triggers		Results		
	DPO1	DPO 2	Indicator Name	Baseline	Target
Objective	Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.				
<i>Increasing productivity by introducing market-based incentives in the SOE sector.</i>	<p>Prior Action 1. To reduce the distortionary impact of SOEs on competition and advance their commercialization, the Borrower has strengthened the accountability and independence of SOE supervisory boards, as evidenced through Law #3587-IX dated February 22, 2024, and published in the Official Gazette on March 7, 2024.</p>	<p>Prior Action 1. To enhance the competitiveness of the railway market, the Borrower, through its Cabinet of Ministers, has submitted to the Verkhovna Rada, a draft law on railway transport that enhances competitive entry opportunities into the railway sector and improves its governance, as evidenced by Draft Law No. 12142, submitted to the Verkhovna Rada on October 21, 2024.</p> <p>Prior Action 2. To streamline the state’s participation in the banking sector, the Borrower has enacted a law establishing the legal parameters for the privatization of state-owned banks and aligning privatization procedures with international practice, as evidenced by Law No. 3983-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.</p>	<p>Results Indicator 1. Total dividends paid by State-Owned Enterprises to the Government.</p> <p>Results Indicator 2. Appointment of independent sales adviser.</p>	<p>UAH 35.1 billion (2023)</p> <p>No (2023)</p>	<p>UAH 50 billion (2026)</p> <p>Yes (2026)</p>



<p><i>Increasing productivity through efficient and environmentally conscious energy price signals.</i></p>	<p>Prior Action 2. To promote renewable energy generation, the Borrower has replaced the fixed feed-in tariff with a transparent auction-based incentive mechanism, as evidenced by Law #3220-IX dated June 30, 2023, and published in the Official Gazette on July 26, 2023.</p> <p>Prior Action 3. To enable the trading of renewable energy, the Borrower, through its CoM, has approved the institutional mechanism required to issue, circulate, and redeem guarantees of origin of electricity produced from renewable energy sources, as evidenced by Resolution #227 dated February 27, 2024.</p>	<p>Prior Action 3. To promote renewable energy generation, the Borrower, through its National Energy and Utilities Regulatory Commission (“NEURC”), has improved the necessary bylaw for the implementation procedures for the transparent auction-based incentive mechanism for renewables, as evidenced by NEURC Resolution No. 1381, dated July 26, 2024.</p> <p>Prior Action 4. To increase the production of diverse sources of renewable energy and to promote integration with European energy markets, the Borrower has enabled the export of biomethane, as evidenced by Law No. 3613-IX, dated March 20, 2024, and published in the Official Gazette on May 15, 2024, and Ministry of Finance Order No. 380, dated August 1, 2024.</p>	<p>Results Indicator 3. Total new renewable energy capacity enabled.</p> <p>Results Indicator 4. Percent of biomethane production exported.</p>	<p>0 GW (2023)</p> <p>0 (2023)</p>	<p>350 MW (2026)</p> <p>10 (2026)</p>
<p><i>Enabling capital accumulation in the agricultural sector.</i></p>	<p>Prior Action 4. To improve farmers’ access to loans through digital technologies, the Borrower has introduced a new financial instrument that allows for the use of agrarian notes as collateral, as evidenced by Law #3586-IX</p>	<p>Prior Action 5. To improve credit flow and facilitate efficient support for the agricultural sector including disaster relief, the Borrower has enacted a law to operationalize and regulate the access of data by banks in the State Agrarian Registry and the registry’s use for public</p>	<p>Results Indicator 5. Value of financing facilitated via agrarian notes.</p>	<p>US\$0 (2023)</p>	<p>US\$75 million, at least US\$15 million of which accrues to female farmers and</p>



	dated February 22, 2024, and published in the Official Gazette on March 7, 2024.	assistance, as evidenced by Law No. 3980-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.			female-headed and female-owned firms (2026)
			Results Indicator 6. Outstanding credit to the agricultural sector.	UAH 116 billion (2023)	UAH 150 billion (2026)
<i>Enabling capital accumulation</i> by improving access to finance and enhancing capital market supervision.	<p>Prior Action 5. To efficiently use public funds to support the private sector’s access to finance, the Borrower, through its CoM, has revised the 5-7-9 Loan Program to limit eligibility to SMEs exclusively, as evidenced by Resolution #1403 dated December 27, 2023.</p> <p>Policy Action. The Borrower has enacted a law strengthening the independence and institutional capacity of the NSSMC in accordance with the IOSCO Principles.</p>	<p>Prior Action 6. To encourage credit flows to the private sector, the Borrowers has enacted: (i) a law on bankruptcy procedures that facilitates the restructuring and recovery of businesses before they become insolvent, as evidenced by Law No. 3985-IX, dated September 19, 2024, and published in the Official Gazette on October 23, 2024; and (ii) a law that establishes standards for and regulates rating agencies, as evidenced by Law No. 3981-IX, dated September 19, 2024, and published in the Official Gazette on October 19, 2024.</p>	<p>Results Indicator 7. Share of new loans supported through the 5-7-9 program allocated to SMEs.</p> <p>Results Indicator 8. Number of cases successfully using preventive restructuring procedures.</p> <p>Results Indicator 9. NSSMC’s governance, powers, and oversight framework in compliance with IOSCO principles.</p>	<p>95 percent (2023)</p> <p>0 (2023)</p> <p>No (2023)</p>	<p>100 percent, 20 percent of which accrue to female-headed and female-owned firms and female farmers (2026)</p> <p>10 (total by the end of 2026)</p> <p>Yes (2026)</p>



<i>Improving access to export markets by facilitating customs processing.</i>	Prior Action 6. To facilitate export processing, the Borrower, through its CoM, has submitted to the Verkhovna Rada of Ukraine for approval on January 16, 2024, the draft Law #10411 amending the Customs Code of Ukraine and aligning it with EU customs legislation.	Prior Action 7. To improve the integrity and competency of customs leadership, the Borrower has enacted a law reforming the leadership selection procedure for the head of the State Customs Service, as evidenced by Law No. 3977-IX, dated September 17, 2024, and published in the Official Gazette on October 18, 2024.	Results Indicator 10. Score on the Customs Logistics Performance Index.	2.4 (2023)	2.9 (2026, or latest available)
<i>Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment.</i>					
Strengthening domestic revenue.	Prior Action 7. To strengthen the land tax base, the Borrower, through its CoM, has approved the initiation of a pilot mass valuation of land values, as evidenced by Resolution #1078 dated October 13, 2023.	Prior Action 8. To advance the alignment of the valuation of the Borrower’s land tax base with market values, the StateGeoCadastre has published a land valuation for all commercial agricultural parcels located in regions where sales transactions for such parcels occurred from 2021 through 2024 (obtained as part of the Pilot Project on mass land evaluation) and recorded in the State Land Cadastre, as evidenced by the StateGeoCadastre Order No. 318, dated October 31, 2024, and the published data in the electronic services platform within the StateGeoCadastre official website. Prior Action 9. To strengthen excise	Results Indicator 11. General government (consolidated, including social security contributions) tax revenue and excise tax revenue (% of GDP)	32.6, 2.9 (2023)	36.9, 3.8 (2026)



		revenue generation from fuels, which also mitigates carbon emissions, the Borrower has enacted a law that approximates excise tax rates on motor fuel more closely with EU minimum levels, as evidenced by Law No. 3878-IX, dated July 18, 2024, and published in the Official Gazette on September 1, 2024.			
Ensuring procurement integrity and alignment with EU standards.	Prior Action 8. To reduce corruption in public procurement, the Borrower, through the Ministry of Finance and the Ministry of Economy, has adopted a joint order initiating and outlining the steps for the update of automatic risk indicators for e-procurement, as evidenced by Order #66/3757 dated February 12, 2024.	Prior Action 10. To improve transparent and efficient procurement, the Borrower: (i) through its Ministry of Finance, has mandated the use of updated automatic risk indicators and their publication as part of the State Audit Service’s regular reporting, as evidenced by the Ministry of Finance Order No. 476, dated September 27, 2024; and (ii) through its Cabinet of Ministers, has submitted to the Verkhovna Rada a draft procurement law to enable expansion and improved efficiencies of the Borrower’s electronic public procurement system, through the introduction of new procedures and optimization of existing procedures, as evidenced by Draft Law No. 11520, submitted to Verkhovna Rada on August 23, 2024.	Results Indicator 12. Percentage of procurement procedures scrutinized by the State Audit Services (SAS) from the procedures identified with red flags.	11.5 (2023)	20, subject to a maximum of 2,300 scrutinization procedures per year (2026)



ANNEX 2. Paris Alignment Assessment

<p>Program 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.</p>	
<p>Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?</p>	<p>Yes. The program is consistent with Ukraine’s climate commitments, namely the NDC, Long-term Low Emissions Development Strategy and the Environmental Security and Climate Adaptation Strategy to 2030.</p> <p>The Ukrainian NDC target corresponds to an economywide absolute GHG reduction of 65 percent by 2030, compared to 1990 GHG emissions level. Prior Actions 1, 3, 4, 9 and 10 are directly contributing to the achievement of the national mitigation target. The other prior actions do not hinder the achievement of Ukraine’s climate commitments or adaptation priorities. Therefore, the reforms supported by the DPO are consistent with the country’s national climate action plans.</p>

Mitigation goals: assessing and reducing the risks	
<i>Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.</i>	
Prior Actions 1, 2, 3, 4, 5 and 6	
Prior Action 1	To enhance the competitiveness of the railway market, the Borrower, through its Cabinet of Ministers, has submitted to the Verkhovna Rada, a draft law on railway transport that enhances competitive entry opportunities into the railway sector and improves its governance, as evidenced by Draft Law No. 12142, submitted to the Verkhovna Rada on October 21, 2024.
Prior Action 3	To promote renewable energy generation, the Borrower, through its National Energy and Utilities Regulatory Commission (“NEURC”), has improved the necessary bylaw for the implementation procedures for the transparent auction-based incentive mechanism for renewables, as evidenced by NEURC Resolution No. 1381, dated July 26, 2024.
Prior Action 4	To increase the production of diverse sources of renewable energy and to promote integration with European energy markets, the Borrower has enabled the export of biomethane, as evidenced by Law No. 3613-IX, dated March 20, 2024, and published in the Official Gazette on May 15, 2024, and Ministry of Finance Order No. 380, dated August 1, 2024.
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. Prior Actions 1, 3 and 4 will have a positive impact on Ukraine’s target to reduce GHG emissions and are aligned with the goals of the Paris Agreement.
Prior Action 2	To streamline the state’s participation in the banking sector, the Borrower has enacted a law establishing the legal parameters for the privatization of state-owned banks and aligning privatization procedures with international practice, as evidenced by Law No. 3983-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.
Prior Action 5	To improve credit flow and facilitate efficient support for the agricultural sector including disaster relief, the Borrower has enacted a law to operationalize and regulate the access of data by banks in the State Agrarian Registry and the registry’s use for public assistance, as evidenced by Law No. 3980-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.

Prior Action 6	To encourage credit flows to the private sector, the Borrowers has enacted: (i) a law on bankruptcy procedures that facilitates the restructuring and recovery of businesses before they become insolvent, as evidenced by Law No. 3985-IX, dated September 19, 2024, and published in the Official Gazette on October 23, 2024; and (ii) a law that establishes standards for and regulates rating agencies, as evidenced by Law No. 3981-IX, dated September 19, 2024, and published in the Official Gazette on October 19, 2024.
Prior Action 7	To improve the integrity and competency of customs leadership, the Borrower has enacted a law reforming the leadership selection procedure for the head of the State Customs Service, as evidenced by Law No. 3977-IX, dated September 17, 2024, and published in the Official Gazette on October 18, 2024.
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. Prior Actions 5 and 7 and public administration reforms and are not expected to cause significant increase of GHG emissions. Prior Actions 2 and 6 will support private sector participation in banking and agrarian sectors. While these reforms may contribute to increased economic activities, the reforms correspond to international practices and the emission-intensive activities are not specifically supported, so private sector participation in these sectors is likely to contribute to long-term increased efficiency and reduction of GHG emissions. Therefore, the reforms will not cause a significant increase of GHG emissions.
Conclusion Pillar 1 (Prior Actions 1,2,3,4,5,6 and 7): All seven Prior Actions from Pillar 1 are aligned with the mitigation goals of the Paris Agreement.	
<i>Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment.</i>	
Prior Actions 8, 9, 10	
Prior Action 8	To advance the alignment of the valuation of the Borrower's land tax base with market values, the StateGeoCadastre has published a land valuation for all commercial agricultural parcels located in regions where sales transactions for such parcels occurred from 2021 through 2024 (obtained as part of the Pilot Project on mass land evaluation) and recorded in the State Land Cadastre, as evidenced by the StateGeoCadastre Order No. 318, dated October 31, 2024, and the published data in the electronic services platform within the StateGeoCadastre official website.
Prior Action 9	To strengthen excise revenue generation from fuels, which also mitigates carbon emissions, the Borrower has enacted a law that approximates excise tax rates on motor fuel more closely with EU minimum levels, as evidenced by Law No. 3878-IX, dated July 18, 2024, and published in the Official Gazette on September 1, 2024.
Prior Action 10	To improve transparent and efficient procurement, the Borrower: (i) through its Ministry of Finance, has mandated the use of updated automatic risk indicators and their publication as part of the State Audit Service's regular reporting, as evidenced by the Ministry of Finance Order No. 476, dated September 27, 2024; and (ii) through its Cabinet of Ministers, has submitted to the Verkhovna Rada a draft procurement law to enable expansion and improved efficiencies of the Borrower's electronic public procurement system, through the introduction of new procedures and optimization of existing procedures, as evidenced by Draft Law No. 11520, submitted to Verkhovna Rada on August 23, 2024.

Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	No. Prior Action 8 support a reform in the public administration sector and is not expected to cause significant increase of Ukraine’s GHG emissions or create persistent barriers to a low-carbon development. Prior Actions 9 and 10 will contribute to decreasing GHG emissions. Therefore, all Prior Actions from Pillar 2 are aligned with the mitigation goals of the Paris Agreement.
Conclusion Pillar 2 (Prior Action 8, 9, and 10): All four Prior Actions from Pillar 2 are aligned with the mitigation goals of the Paris Agreement.	
Conclusion Mitigation Goals for the DPO: The operation is aligned with the mitigation goals of the Paris Agreement.	
Adaptation and resilience goals: assessing and managing the risks	
<p>The program has been screened for climate and disaster risks, with an emphasis on the priority sectors of energy, transport and public administration.</p> <p>Ukraine is at risk of hydrometeorological hazards and natural disasters such as droughts, elevated temperatures, heat waves, wildfires, soil erosion, mudflows, extreme precipitation and flooding, which primarily affect agriculture, water resources, energy, transportation, health, the urban environment and forests. Due to climate change, Ukraine has experienced increased frequency and severity of natural disasters (such as droughts and floods) - causing in many cases, fatalities and leading to significant economic losses. While currently the risks from climate hazards on the sectors are assessed as low, rising temperatures, shifts in precipitation and flooding, droughts and water scarcity, and wildfires may have low impacts in the future. Annual average temperatures are projected to further increase, and heatwaves to become more frequent. Variability in precipitation is projected to increase throughout the country, potentially leading to higher risks of floodings and droughts. This might also influence the risks of wildfires in certain oblasts that already frequent in Ukraine.</p> <p>Overall, the risk rating from future potential impacts of climate and geophysical hazards to these priority sectors and therefore for the program is low as climate and geophysical hazards are unlikely to affect the achievement of the development goals and the outcome of this operation.</p>	
<i>Pillar 1: Strengthening the economic policy framework to facilitate a structural shift towards sustainable growth.</i>	
Prior Actions 1, 2, 3, 4, 5, 6 and 7	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	No. Based on the climate and disaster risk screening conducted for this DPO, the anticipated risks from climate hazards in Ukraine to reforms adopted under this Pillar were found to be low. The climate-related hazards as mentioned above are not expected to significantly impact the effectiveness of the prior actions in Pillar 1. The aimed outcomes of the proposed reforms in energy, transport, agriculture and public administration are not expected to be affected by risks from climate hazards.
Conclusion Pillar 1 (Prior Actions 1, 2, 3, 4, 5, 6 and 7): All Prior Actions from Pillar 1 are aligned with the adaptation and resilience goals of the Paris Agreement.	
<i>Pillar 2: Enhancing macro-financial stability to create a growth-conducive environment.</i>	
Prior Actions 8, 9, 10	
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	No. Based on the climate and disaster risk screening conducted for this DPO, the anticipated risks from climate hazards in Ukraine to reforms adopted under this Pillar were found to be low. The climate-related hazards are not expected to significantly impact the effectiveness of the prior actions in Pillar 2. The aimed outcomes of the proposed reforms in public administration are not expected to be affected by risks from climate hazards.

Conclusion Pillar 2: All Prior Actions from Pillar 2 are aligned with the adaptation and resilience goals of the Paris Agreement.

Conclusion Adaptation and Resilience Goals for the DPO: The operation is aligned with the adaptation and resilience goals of the Paris Agreement

OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT: The operation is aligned with the goals of the Paris Agreement



ANNEX 3. Operation Specific Annex

Matrix of Key Changes to Original Policy Matrix

Triggers for DPO 2	Prior Actions under DPO 2	Reason for change
Trigger 1. To enhance the competitiveness of the railway market, the Borrower has enacted legislation on railway transport that enhances competitive entry opportunities into the railway sector and improves its governance.	Prior Action 1. To enhance the competitiveness of the railway market, the Borrower, through its Cabinet of Ministers, has submitted to the Verkhovna Rada, a draft law on railway transport that enhances competitive entry opportunities into the railway sector and improves its governance, as evidenced by Draft Law No. 12142, submitted to the Verkhovna Rada on October 21, 2024.	Ukraine began membership negotiations with the EU in late June 2024, an unforeseen development at the time of the approval of DPO1 (in March 2024). The initial trigger formulation has been revised to reflect the submission of the updated law to Parliament, rather than its enactment. While the overall objective of the reform is not expected to be affected, this approach allows for the authorities to engage with the EU to ensure all technical details are aligned with the EU Acquis.
Trigger 2. To reduce the state footprint in the banking sector, the Borrower has enacted a law on the sale of shares belonging to the state in the authorized capital of banks in the capitalization of which the state took part that establishes the legal basis for the privatization of state-owned banks and aligns privatization procedures with international practice.	Prior Action 2. To streamline the state’s participation in the banking sector, the Borrower has enacted a law establishing the legal parameters for the privatization of state-owned banks and aligning privatization procedures with international practice, as evidenced by Law No. 3983-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.	No change.
Trigger 3. To encourage green energy production, the NEUR has approved regulatory legal acts that implement Law No. 3220.	Prior Action 3. To promote renewable energy generation, the Borrower, through its National Energy and Utilities Regulatory Commission (“NEURC”), has improved the necessary bylaw for the implementation procedures for the transparent auction-based incentive mechanism for renewables, as evidenced by NEURC Resolution No. 1381, dated July 26, 2024.	The original formulation was updated to clarify the policy content of the supported action.
N.A.	Prior Action 4. To increase the production of diverse sources of	This is an additional implementation act for the green transformation law,



	renewable energy and to promote integration with European energy markets, the Borrower has enabled the export of biomethane, as evidenced by Law No. 3613-IX, dated March 20, 2024, and published in the Official Gazette on May 15, 2024, and Ministry of Finance Order No. 380, dated August 1, 2024.	supported in the first operation, and has been added to reflect the authorities' progress.
Trigger 4. To facilitate mortgage lending, the Borrower has enacted a law for the State Agrarian Registry that allows financial institutions to access the State Agrarian Registry for the evaluation of mortgage applications	Prior Action 5. To improve credit flow and facilitate efficient support for the agricultural sector including disaster relief, the Borrower has enacted a law to operationalize and regulate the access of data by banks in the State Agrarian Registry and the registry's use for public assistance, as evidenced by Law No. 3980-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.	The original formulation was updated to clarify the policy content of the supported action.
Trigger 5. To prevent unstructured bankruptcies, the Borrower has enacted a law on amending the code of Ukraine on bankruptcy procedures that facilitates the restructuring and recovery of businesses before they become insolvent. Trigger 11. To reduce information distortions in debt markets, the Borrower has enacted a law that establishes standards and regulates rating agencies.	Prior Action 6. To encourage credit flows to the private sector, the Borrowers has enacted: (i) a law on bankruptcy procedures that facilitates the restructuring and recovery of businesses before they become insolvent, as evidenced by Law No. 3985-IX, dated September 19, 2024, and published in the Official Gazette on October 23, 2024; and (ii) a law that establishes standards for and regulates rating agencies, as evidenced through Law No. 3981-IX, dated September 19, 2024, and published in the Official Gazette on October 19, 2024.	The two initial triggers have been combined into a single action without any change to the substance to streamline the presentation of the matrix.
Trigger 6. The Cabinet of Ministers has amended the selection process for the leadership of the State Customs Service to ensure a transparent and merit-based process that includes the constructive participation of international experts.	Prior Action 7. To improve the integrity and competency of customs leadership, the Borrower has enacted a law reforming the leadership selection procedure for the head of the State Customs Service, as evidenced by Law No. 3977-IX, dated September 17, 2024, and published in the Official Gazette on October 18, 2024.	The change in the wording reflects a choice by the Borrower to regulate leadership selection through a law rather than a Cabinet resolution.
Trigger 7. To strengthen the land	Prior Action 8. To advance the alignment of the valuation of the	No material change. The wording of the action has been updated to reflect



<p>tax base, the StateGeoCadastre has updated land valuations from the pilot project and made them available at property level on their monitoring website.</p>	<p>Borrower’s land tax base with market values, the StateGeoCadastre has published a land valuation for all commercial agricultural parcels located in regions where sales transactions for such parcels occurred from 2021 through 2024 (obtained as part of the Pilot Project on mass land evaluation) and recorded in the State Land Cadastre, as evidenced by the StateGeoCadastre Order No. 318, dated October 31, 2024, and the published data in the electronic services platform within the StateGeoCadastre official website.</p>	<p>the policy content.</p>
<p>Trigger 8. To strengthen excise revenue generation and mitigate carbon emissions, the Borrower, through its Cabinet of Ministers, has approved the Budget Declaration for 2025-27, that approximates excise tax rates on motor fuel more closely with EU minimum levels.</p>	<p>Prior Action 9. To strengthen excise revenue generation, which also mitigates carbon emissions, the Borrower has enacted a law that approximates excise tax rates on motor fuel more closely with EU minimum levels, as evidenced by Law No. 3878-IX, dated July 18, 2024, and published in the Official Gazette on September 1, 2024.</p>	<p>The change in the wording reflects that the authorities have enacted a change to the tax code that achieves the expected result.</p>
<p>Trigger 9. To prevent corruption in public procurement, the Ministry of Finance has issued an order that mandates the use of updated automatic risk indicators and their publication as part of the State Audit Service’s regular reporting.</p>	<p>Prior Action 10. To improve transparent and efficient procurement, the Borrower: (i) through its Ministry of Finance, has mandated the use of updated automatic risk indicators and their publication as part of the State Audit Service’s regular reporting, as evidenced by the Ministry of Finance Order No. 476, dated September 27, 2024; and (ii) through its Cabinet of Ministers, has submitted to the Verkhovna Rada a draft procurement law to enable expansion and improved efficiencies of the Borrower’s electronic public procurement system, through the introduction of new procedures and optimization of existing procedures, as evidenced by Draft Law No. 11520,</p>	<p>The two initial triggers have been combined into a single action to streamline the presentation of the matrix.</p> <p>The authorities have begun discussions on aligning the procurement legislation with the EU, following the opening of EU negotiations. The initial trigger 10 has been revised to reflect submission of a draft law to Parliament instead of an amendment, to ensure full alignment with EU standards before final approval (while the overall objective and impact of the reform is expected to be maintained).</p>
<p>Trigger 10. To align procurement rules with EU standards, the Borrower has amended the public procurement law that includes provisions that substantially put it in alignment with EU directives.</p>		



	submitted to Verkhovna Rada on August 23, 2024.	
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Letter of Development Policy

**КАБІНЕТ МІНІСТРІВ
УКРАЇНИ**



**CABINET OF MINISTERS
OF UKRAINE**

Шановний пане Банга,

Від імені Уряду України хочу скористатися цією нагодою, щоб висловити теплі вітання та подякувати Світовому банку і Вам особисто за підтримку та допомогу Україні від початку вторгнення Російської Федерації в Україну.

За останні два роки Світовий банк підтримав Україну шляхом започаткування ряду проектів і програм. У межах проекту “Підтримка державних видатків для забезпечення стійкого державного управління в Україні” (PEACE) триває надання підтримки Уряду України у виконанні ключових функцій державного управління на національному та регіональному рівні для забезпечення витривалості адміністративної спроможності державних органів України. З Цільового фонду підтримки України (URTF) профінансовано важливі заходи з відновлення та нарощення потенціалу. Проект “Інвестиції у соціальний захист задля підвищення охоплення, стійкості та ефективності” (INSPIRE) підтримав наші зусилля з надання соціальної допомоги. У рамках Екстреного проекту надання інклюзивної підтримки для відновлення сільського господарства України (ARISE) малим фермерським господарствам та сільгоспвиробникам запропоновано доступні кредити для сільськогосподарського виробництва. За проектами “Зміцнення системи охорони здоров’я та збереження життя” (HEAL Ukraine) та “Ремонт житла для відновлення прав і можливостей людей” (HOPE) надано критично важливу підтримку сектору охорони здоров’я та житловому сектору. Водночас енергетичний і транспортний сектори отримали підтримку в рамках проектів “Відновлення енергозабезпечення у зимовий період та постачання енергетичних ресурсів” (Re-Power) та “Відновлення критично важливої логістичної інфраструктури та мережевого сполучення” (RELINC). Виконання програми “Підвищення доступності та стійкості освіти в умовах кризи в Україні” (LEARN) сприяє відновленню системи освіти шляхом підвищення рівня безпеки в школах, забезпечення транспорту для учнів, що належать до вразливих категорій населення, підвищення кваліфікації вчителів і постачання підручників.

Пану Аджаю БАНГА,

**Президенту Світового банку,
Вашингтон, округ Колумбія, США**

Згідно з нашим планом реформ серія позик Світового банку на підтримку політики розвитку сприяла подальшому проведенню реалізації структурних реформ, спрямованих на посилення потенціалу зростання України та приведення національної економіки у відповідність із стандартами ЄС. Реалізація майбутніх проектів “Підтримка відбудови за допомогою розумного фіскального управління” (SURGE), “Стійке, інклюзивне та стале підприємництво” (RISE) і “Трансформація охорони здоров’я завдяки реформам та інвестиціям в ефективність” (THRIVE) сприятиме зміцненню ключових секторів нашої економіки. Загалом зазначені проекти сприятимуть подальшій підтримці економічної стійкості, соціальній стабільності та сталому відновленню України шляхом посилення фіскального управління, сприяння зростанню підприємств і підвищення ефективності охорони здоров’я, що є ще одним свідченням нашого прагнення побудувати міцну, інклюзивну та стійку основу для довгострокового зростання.

Завдяки наполегливим зусиллям і постійній підтримці наших міжнародних партнерів національна економіка, оголошена після спаду 2022 року, продемонструвала стійкість, та зберегла позитивні темпи зростання у 2023 та 2024 роках. Проте тривалі військові дії та цілеспрямовані ворожі атаки продовжують навантажувати державний бюджет, про що свідчить дефіцит валового внутрішнього продукту. Ми вдячні за несоцієнну підтримку, надану нашими міжнародними партнерами, зокрема Світовим банком, Міжнародним валютним фондом (МВФ), Сполученими Штатами Америки, Європейським Союзом, Урядом Японії та Урядом Сполученого Королівства Великої Британії та Північної Ірландії. З огляду на очікуваний значний фіскальний тиск Україна розраховує на підтримку своїх міжнародних партнерів у майбутньому.

Незважаючи на надзвичайні виклики та невизначеність, спричинені вторгненням Російської Федерації, ми зберегли макроекономічну і фінансову стабільність та продемонстрували нашу здатність підтримувати стабільні макроекономічні показники. Розумна державна політика (виважені дії Уряду, спрямовані на захист населення та відносно жорстка монетарна політика центрального банку) сприяє утриманню інфляції під контролем незважаючи на нещодавнє зростання інфляції до 9,7 відсотка у жовтні 2024 року з 3,2 відсотка у квітні 2024 року. Валютні резерви на кінець жовтня 2024 року залишаються потужними і становлять близько 36,6 млрд. доларів США (їх обсяг достатній для забезпечення фінансування 4,6 місяця майбутнього імпорту), тож ми змогли перейти до режиму керованої гнучкості обмінного курсу та ініціювати повернення до режиму гнучкого інфляційного таргетування. Схвалення Стратегії національних доходів до 2030 року демонструє нашу готовність зміцнювати фіскальну спроможність. Також було затверджено Дорожню карту реформування системи управління державними інвестиціями з метою формування контексту, бачення, основних принципів та напрямів

побудови цілісної, сталої та ефективної системи управління державними інвестиціями, яка забезпечує планування інвестиційних проєктів з урахуванням стратегічних пріоритетів та середньострокового бюджету, їх відбір за єдиними та прозорими процедурами та чіткими критеріями і виконання в заплановані строки і в межах запланованого фінансування.

Наші зусилля щодо підтримки макроекономічної стабільності та одночасного здійснення реформ були визнані нашими міжнародними партнерами. Програма Міжнародного валютного фонду (EFF), яка з березня 2023 року стала важливою запорукою стабільності, надалі виконується, і нещодавно ми пройшли п'ятий перегляд її виконання. Україна також значно просунулася вперед у досягненні амбітної цілі щодо вступу до ЄС, що привело до офіційного відкриття переговорів у червні 2024 року. Вреїпті, ми залишаємося відданими програмі структурного зростання, про що свідчить наша ефективність у виконанні попередніх заходів, підтриманих у межах Першої позики Програми цілей, державної політики та заходів, та наша відданість меті розвитку, яка полягає у (i) зміцненні основ економічної політики для сприяння структурному зростанню до сталого зростання; та (ii) посиленні макрофінансової стабільності з метою створення сприятливого середовища для зростання.

Реалізація реформ у рамках Першої позики Програми цілей, державної політики та заходів сприяє збільшенню потенціалу зростання економіки шляхом підвищення продуктивності, накопичення капіталу та доступу до експортного ринку.

По-перше, Кабінет Міністрів України схвалив і подав до Верховної Ради України проєкт Закону України “Про систему та особливості функціонування ринку залізничного транспорту України” (реєстраційний номер 12142 від 21 жовтня 2024 р.), спрямований на підвищення конкурентоспроможності України у сфері залізничного транспорту та покращення управління ним відповідно до Acquis ЄС. Зазначений законопроєкт передбачає розділення АТ “Українська залізниця” на дві окремі державні компанії: оператора інфраструктури і перевізника вантажів та пасажирів, а також створює основні інституційні органи для регулювання економічної та технічної діяльності залізничного транспорту. Законопроєкт спрямований на підвищення рівня безпеки, ефективності та конкурентоспроможності шляхом встановлення рівного доступу до інфраструктури, впровадження суворих правил безпеки, узгодження технічних стандартів з нормами ЄС. До того ж законопроєкт містить графік підготовки та проведення реструктуризації сектору, в тому числі розділення АТ “Українська залізниця”, реалізація якого розпочнеться відразу після ухвалення законопроєкту.

По-друге, прийнято Закон України від 19 вересня 2024 р. № 3983-ІХ, який спрямовано на скорочення частки державної власності в банківському секторі України, який розширює коло потенційних

інвесторів, дозволяє здійснювати продаж будь-якої частки держави у банку, підвищує вимоги до юридичних осіб, яких може залучати держава як радників з продажу, надає міжнародним донорам можливість брати участь у процедурі відбору радників з продажу та процедурі самого продажу, оновлює правила щодо визначення ціни та проведення аукціону відповідно до рекомендацій Світового банку, враховує вірогідність участі в аукціоні лише одного інвестора, приводить вимоги до договору купівлі-продажу у відповідність з ринковими практиками, нівелює можливість негативного впливу на процедуру продажу. Надалі маємо намір вживати заходів до імплементації прийнятих норм Закону від 19 вересня 2024 р. № 3983-ІХ для подальшого залучення радників.

По-третє, зважаючи на нагальну потребу в зміцненні енергетичної безпеки та сталого розвитку, ми успішно впроваджуємо Закон України від 30 червня 2023 р. № 3220-ІХ “Про внесення змін до деяких законів України щодо відновлення та “зеленої” трансформації енергетичної системи України”. Національна комісія, що здійснює державне регулювання у сферах енергетики та комунальних послуг (НКРЕКП), розробила та затвердила необхідні нормативно-правові акти для реалізації зазначеного Закону. Зокрема, 24 січня 2024 р. внесено зміни до постанови НКРЕКП від 26 квітня 2019 р. № 641 “Про затвердження нормативно-правових актів, що регулюють діяльність гарантованого покупця та купівлю електричної енергії за “зеленим тарифом”. Згідно із зазначеною постановою НКРЕКП затверджено, зокрема, Типовий договір про надання послуги із забезпечення підтримки виробництва електричної енергії з відновлюваних джерел енергії за механізмом ринкової премії та Типовий договір про участь у балансуєчій групі гарантованого покупця таких виробників. Крім того, постановою НКРЕКП від 26 липня 2024 р. № 1381 було внесено додаткові зміни до типових договорів щодо купівлі електроенергії за “зеленим” тарифом та механізмом ринкової премії, із зобов’язанням для учасників ринку до 1 жовтня 2024 р. привести свої договори у відповідність із прийнятими змінами. Для набуття такими учасниками ринку статусу користувача реєстру гарантій походження електричної енергії з відновлюваних джерел енергії, що також був створений НКРЕКП на виконання зазначеного Закону, постанова зобов’язує гарантованого покупця надавати технічну, інформаційну, організаційну та консультативну підтримку учасникам ринку, що уклали договір про купівлю-продаж електроенергії за “зеленим” тарифом та за механізмом ринкової премії

По-четверте, на додаток до зазначених зусиль ми дозволили експорт біометану шляхом ухвалення Закону України від 20 березня 2024 р. № 3613-ІХ “Про внесення змін до Митного кодексу України та інших законів України щодо особливостей здійснення митного контролю та митного оформлення окремих категорій товарів” та прийняття відповідних наказів Міністерства фінансів України. Зокрема, зазначеним Законом

спрощено процедури експорту біометану та забезпечено здійснення належного контролю і прозорість процесу, що сприятиме більш ефективному експорту біометану, відкриттю нових ринків для українських підприємств і посиленню інтеграції з європейськими енергетичними ринками. Проведення такої політики також свідчить про наше прагнення до сталого зростання шляхом прискореного переходу до розподіленої відновлюваної генерації.

По-п'яте, з метою поліпшення ситуації з наданням кредитів і, відповідно, накопичення капіталу, прийнято Закон України від 19 вересня 2024 р. № 3980-ІХ "Про Державний аграрний реєстр", який дозволяє фінансовим установам отримувати доступ до Державного аграрного реєстру для оцінки заявок на іпотеку, що сприятиме подоланню інформаційних суперечок, та надасть банкам комплексне уявлення про активи та економічну діяльність заявника, отже, сприятиме розширенню кредитування.

По-шосте, для посилення фінансової стабільності та поліпшення доступу малих та середніх підприємств до фінансування ми ухвалили Закон України від 19 вересня 2024 р. № 3985-ІХ "Про внесення змін до Кодексу України з процедур банкрутства та деяких інших законодавчих актів України щодо імплементації Директиви Європейського парламенту та Ради Європейського Союзу 2019/1023 та запровадження процедур превентивної реструктуризації" та Закон України від 19 вересня 2024 р. № 3981-ІХ "Про рейтингування". Зокрема, Закон України від 19 вересня 2024 р. № 3985-ІХ удосконалює процедури запобігання неплатоспроможності та імплементує основні положення Директиви ЄС 2019/1023. Зазначеним Законом запроваджується механізм превентивної реструктуризації, який забезпечує підприємствам, які мають фінансові труднощі, управлінські, фінансові, правові та технічні заходи для запобігання неплатоспроможності. Закон України від 19 вересня 2024 р. № 3981-ІХ, який регулює процедури акредитації рейтингових агентств і встановлює стандарти якості та доброчесності, визначено механізми запобігання конфлікту інтересів, передбачають прозорість рейтингів і методологій, захищають конфіденційну інформацію, а також запроваджують належний нагляд і регулювання. Прийняття зазначеного Закону забезпечує приведення нормативно-правової бази для кредитно-рейтингових агентств у відповідність з Принципами Міжнародної організації комісій з цінних паперів (IOSCO), що сприятиме забезпеченню відповідності України вимогам Регламенту ЄС № 1060/2009 щодо кредитних рейтингів.

По-сьоме, ми ухвалили Закон України від 17 вересня 2024 р. № 3977-ІХ, яким визначено особливості прийняття на службу до митних органів та проходження служби в митних органах. Зокрема, такий Закон унормовує положення Митного кодексу України щодо укладення

контракту про проходження служби в митних органах — встановлення істотних умов контракту; встановлює вимогу щодо проведення раз на рік перевірки митних компетенцій; застосування ротації; проведення психофізичного опитування із застосуванням поліграфа; проведення перевірки на доброчесність та моніторингу способу життя посадових осіб митних органів, реформує порядок обрання керівників Державної митної служби. Зазначений Закон запроваджує прозору процедуру конкурсного відбору керівника служби і передбачає вагому участь міжнародних експертів з вирішальним голосом у визначенні короткого списку з двох кандидатів, після чого Міністерство фінансів України обиратиме керівника митниці. Відповідно до наших зобов'язань за структурним “маяком” МВФ ми і надалі застосовуватимемо таку процедуру відбору для призначення нового Голови Державної митної служби України до середини 2025 року.

З метою оперативного виконання вимог Закону України від 17 вересня 2024 р. № 3977-ІХ Кабінетом Міністрів України затверджено план організації підготовки проектів актів та виконання інших завдань, необхідних для реалізації зазначеного Закону, яким визначено конкретні заходи з виконання відповідних положень Закону України від 17 вересня 2024 р. № 3977-ІХ, органи, відповідальні за їх виконання, та відповідальні структурні підрозділи Секретаріату Кабінету Міністрів України, а також встановлено строк виконання кожного заходу.

Реформи в межах Другої позики Програми цілей, державної політики та заходів підтримують реалізацію макрофінансової політики, яка стимулює економічне зростання.

По-перше, збільшення доходів має вирішальне значення для задоволення фіскальних потреб і забезпечення належної підтримки національної економіки. З урахуванням реформ, започаткованих Світовим банком у межах позики на підтримку політики розвитку “Допомога та відновлення”, ми наближаємося до нашої мети — зміцнення бази оподаткування землі. За підтримки в межах Першої позики із серії позик запроваджено пілотний проект, відповідно до якого використовуватиметься масова оцінка земель. Результатом реалізації зазначеного пілотного проекту став розрахунок масової оцінки земель, що опублікований на офіційному сайті Держгеокадастру. Передбачається вжиття конкретних заходів до використання масової оцінки земель для покращення оподаткування земель в Україні. На основі отриманих відгуків ми вдосконалимо методологію, яка використовується для розрахунку масової оцінки земель, та включимо в регресійну модель ключові топографічні деталі, якість ґрунту, відстань до інфраструктури, а також забезпечимо операційну сумісність з реєстрами адрес і будівель після створення відповідних реєстрів, щоб прив'язати споруди до відповідної земельної ділянки, що забезпечить розбудову системи моніторингу земельних відносин. Для введення в дію таких оцінок ми плануємо (і)

внести зміни до Земельного кодексу України та інших нормативно-правових актів з метою забезпечення можливості використання масової оцінки земель в областях, де застосовувалася нормативна грошова оцінка, і покласти відповідальність за адміністрування геоінформаційної системи для такої оцінки на відповідні органи; (ii) схвалити за рішенням Кабінету Міністрів України методологію, яка використовуватиметься, і періодичність оновлення оцінок; (iii) оновити Податковий кодекс України з метою запровадження масової оцінки земель для цілей плати за землю в Україні і водночас встановити перехідні положення для запобігання надмірним фінансовим труднощам для фізичних осіб або громад у зв'язку із зазначеною зміною.

По-друге, Законом України від 18 липня 2024 р. № 3878-LX ми затвердили підвищення ставок акцизного податку на моторне паливо, який визначено пріоритетом згідно із Стратегією національних доходів до 2030 року. Зокрема, зазначений Закон зобов'язує щороку поступово протягом наступних чотирьох років підвищувати ставки акцизу на бензин, дизельне паливо, скраплений газ та альтернативне моторне паливо до мінімуму, встановленого Директивами ЄС, що сприятиме збільшенню внутрішніх доходів, а також допоможе зменшити обсяг спалювання викопного палива та перейти на використання таких типів транспорту без викидів, як електромобілі.

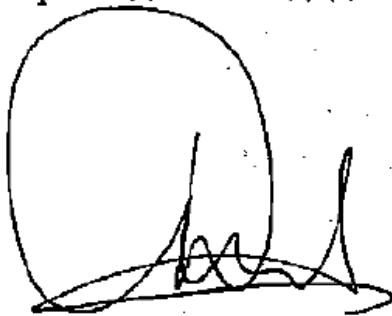
По-третє, ми продовжуємо удосконалювати систему державних закупівель для забезпечення раціонального використання ресурсів. У зв'язку з цим для запобігання корупції у сфері публічних закупівель прийнято спільний наказ Мінфіну та Мінекономіки від 12 лютого 2024 р. № 66/3757, відповідно до якого державне підприємство "Прозорро" забезпечило технічну можливість запровадження автоматичних ризик-індикаторів. До Верховної Ради України подано проект Закону України "Про публічні закупівлі" (реєстраційний номер 11520 від 23 серпня 2024 р.), яким передбачено розширення можливостей, а також впровадження та коригування інструментів закупівель. Зазначеним законопроектом передбачається запровадження процедури інноваційного партнерства, динамічних систем закупівель та конкурсів проектів, які сприяють більшій прозорості та ефективності закупівель. Крім того, законопроект дозволяє проводити спільні та комплексні закупівлі, переглядає граничні значення для застосування положень законопроекту та скасовує обмеження щодо використання нецінових факторів під час визначення контрактів (крім процедур відкритих торгів, що проводяться в період воєнного стану та протягом двох років після його скасування).

Крім виконання заходів у межах позички на підтримку політики розвитку, ми залишаємося відданими програмі структурних реформ. Досягнуто прогресу у створенні "Матриці реформ", що дало можливість краще відстежувати впровадження реформ, і працюємо над створенням

інституційної платформи “Matrix Growth Lab”, спрямованої на підвищення спроможності Уряду аналізувати та впроваджувати критично важливі реформи. Ми також розробляємо систему показників, що допоможе нам відстежувати, якими є наші успіхи та які сфери потребують уваги. Ми залишаємося відданими реалізації реформ у межах програми МВФ та інструменту ЄС Ukraine Facility для України, про що свідчить прийняття Верховною Радою України Закону України від 29 жовтня 2024 р. № 4033-ІХ “Про внесення змін до Кримінального кодексу України та Кримінального процесуального кодексу України щодо вдосконалення регулювання угод про визнання винуватості у кримінальних провадженнях щодо корупційних кримінальних правопорушень, пов’язаних з корупцією”, який набрав чинності 1 листопада 2024 року. Також ми плануємо реалізувати Дорожню карту, визначену в Стратегії національних доходів до 2030 року, в тому числі забезпечити перехід до прогресивного оподаткування доходів, провести реформу спрощеної системи оподаткування, гармонізувати механізм сплати податку на додану вартість із законодавством ЄС і скасувати знижені ставки та пільги, які не передбачено Директивою ЄС про податок на додану вартість.

З повагою

Прем’єр-міністр України



Денис ШМИГАЛЬ

[Unofficial translation]

CABINET OF MINISTERS OF UKRAINE

To: Mr. Ajay Banga
President of the World Bank,
Washington, District of Columbia, USA

Dear Mr. Banga,

On behalf of the Government of Ukraine, I would like to take this opportunity to express my warm greetings and thank the World Bank and you personally for your support and assistance to Ukraine since the beginning of the Russian Federation's invasion of Ukraine.

In recent years, the World Bank has supported Ukraine through a number of projects and programs. The Public Expenditures for Administrative Capacity Endurance (PEACE) Project continues to support the Government of Ukraine in implementing key public administration functions at the national and regional levels to ensure the resilience of the administrative capacity of Ukraine's government. The Ukraine Relief, Recovery, Reconstruction and Reform Trust Fund (URTF) has financed important recovery and capacity-building activities. The Investing in Social Protection for Inclusion, Resilience, and Efficiency (INSPIRE) Project has supported our social assistance efforts. The Ukraine Agriculture Recovery Inclusive Support Emergency (ARISE) Project has provided affordable loans for agricultural production to farmers. The Health Enhancement and Lifesaving (HEAL) Ukraine Project and Housing Repair for People's Empowerment (HOPE) Project have provided critical support to the health and housing sectors. At the same time, the energy and transport sectors have received support under the Restoration Project of Winterization and Energy Resources (RePoWER) and Repairing Essential Logistics Infrastructure and Network Connectivity (RELINC) project. The implementation of the Lifting Education Access and Resilience in Times of Need (LEARN) program contributes to the restoration of the education system by increasing the level of security in schools, providing transportation for the students belonging to vulnerable categories of the population, improving the skills of teachers and supplying textbooks.

In line with our reform agenda, the World Bank's series of development policy operations have helped to further implement structural reforms aimed at strengthening Ukraine's growth potential and bringing the national economy in line with EU standards. The upcoming Supporting Reconstruction through Smart Fiscal Governance (SURGE), Resilient, Inclusive, and Sustainable Enterprise (RISE) Program, and Transforming Healthcare through Reform and Investments in Efficiency (THRIVE) projects will help strengthen key sectors of our economy. Overall, these projects will further support Ukraine's economic resilience, social stability, and sustainable recovery by strengthening fiscal governance, fostering enterprise growth, and improving health care efficiency, further demonstrating our commitment to building a strong, inclusive, and sustainable foundation for long-term growth.

Thanks to persistent efforts and the continued support of our international partners, the national economy, having recovered from the 2022 recession, has demonstrated resilience and maintained positive growth rates in 2023 and 2024. However, continuous prolonged military operations and targeted enemy attacks continue to strain the state budget, as evidenced by the gross domestic product deficit. We are grateful for the invaluable support provided by our international partners, including the World Bank, the International Monetary Fund (IMF), the United States of America, the European Union, the Government of Japan, and the Government of the United Kingdom of Great Britain and Northern Ireland. Given the expected significant fiscal pressures, Ukraine counts on the support of its international partners in the future.

Despite the extraordinary challenges and uncertainties caused by the Russian Federation's invasion, we have maintained macroeconomic and financial stability and demonstrated our ability to maintain stable macroeconomic performance. Sound public policy (the Government's prudent actions to protect the population and the Central Bank's relatively tight monetary policy) has helped to keep inflation under control despite the recent increase in inflation to 9.7 percent in October 2024 from 3.2 percent in April 2024. Foreign exchange reserves remain strong at around USD 36.6 billion at the end of October 2024 (sufficient to finance 4.6 months of future imports), allowing us to shift to managed exchange rate flexibility and initiate a return to flexible inflation targeting. The approval of the National Revenue Strategy until 2030 demonstrates our commitment to strengthen fiscal flexibility. The Roadmap for reforming the public investment management system was also approved in order to form the context, vision, basic principles and directions for building a holistic, sustainable and effective public finance management system that ensures the investment projects planning based on strategic priorities and medium-term budget, their selection according to uniform and transparent procedures and clear criteria, and implementation within the planned timeframe and within the planned financing.

Our efforts to support macroeconomic stability while implementing reforms have been recognized by our international partners. The International Monetary Fund EFF Program, which has been an important pillar of stability since March 2023, continues to be implemented, and we recently underwent our fifth review of its implementation. Ukraine has also made significant progress towards achieving the ambitious goal of EU accession, leading to the formal opening of negotiations in June 2024. Finally, we remain committed to the structural growth agenda, as evidenced by our performance in implementing previous activities supported under the DPO, and our commitment to the development objective which is (i) strengthening the economic policy framework to facilitate a structural shift towards sustainable growth; and (ii) enhancing macro-financial stability to create an enabling environment for growth.

The implementation of reforms under the DPO contributes to increasing the economy growth potential by enhancing productivity, capital accumulation, and access to export markets.

Firstly, the Cabinet of Ministers of Ukraine approved and submitted to the Verkhovna Rada of Ukraine the draft Law of Ukraine "On the System and Features of the Ukrainian Railway Transport Market Operations" (registration number 12142 dated October 21, 2024), aimed at increasing Ukraine's competitiveness in the railway sector and improving its management in accordance with the Acquis CC. The said draft law provides for the unbundling of Ukrainian Railways JSC into two separate state-owned companies: an infrastructure operator and a carrier of goods and passengers, and also creates the main institutional bodies for regulating the economic and technical activities of the railway sector. The draft law is aimed at increasing the level of safety, efficiency and competitiveness by establishing equal access to infrastructure, introducing strict safety rules, and harmonizing technical standards with EU norms. In addition, the bill contains a schedule for preparing and implementing the restructuring of the sector, including the unbundling Ukrainian Railways JSC, the implementation of which will begin immediately after the bill is adopted.

Secondly, the Law of Ukraine of September 19, 2024 No. 3983-IX was adopted, which is aimed at reducing the share of state ownership in the Ukrainian banking sector, which expands the range of potential investors, allows the sale of any state share in the bank, increases the requirements for legal entities that the state may attract as sales advisors, provides international donors with the possibility to participate in the sales advisors selection procedure and the sale procedure itself, updates the rules for determining the price and conducting the auction in accordance with the recommendations of the World Bank, takes into account the likelihood of only one investor participating in the auction, brings the requirements for the purchase and sale agreement in line with market practices, and eliminates the possibility of a negative impact on the sale procedure. In the future, we intend to make further steps to implement the adopted norms of the Law of September 19, 2024 No. 3983-IX for attracting advisors.

Thirdly, given the urgent need to strengthen energy security and sustainable development, we are successfully implementing the Law of Ukraine No. 3220-IX of June 30, 2023 "On Amendments to Certain Laws of Ukraine on the

Restoration and “Green” Transformation of the Energy System of Ukraine”. The National Commission for State Regulation in the Spheres of Energy and Utilities (NCSREU) has developed and approved the necessary regulatory legal acts to implement the said Law. In particular, on January 24, 2024, amendments were made to the NCSREU Resolution of April 26, 2019 No. 641 “On Approval of Regulatory Legal Acts Regulating the Activities of the Guaranteed Buyer and the Purchase of Electricity at a “Green Tariff”. The said NCSREU resolution approved, inter alia, the standard agreement on the provision of services for ensuring support for the production of electricity from renewable energy sources under the market premium mechanism and the standard agreement on participation in the balancing group of the guaranteed buyer of such producers. In addition, the NCSREU Resolution No. 1381 of July 26, 2024 made additional amendments to the standard agreements for the purchase of electricity under the “green tariff” and the market premium mechanism, with an obligation for market participants to bring their agreements in line with the adopted changes by October 1, 2024. In order for such market participants to acquire the status of a user of the register of guarantees of origin of electricity from renewable energy sources, which was also established by the NCSREU to implement the aforementioned Law, the resolution requires the guaranteed buyer to provide technical, informational, organizational and consulting support to market participants who have concluded an agreement on the purchase and sale of electricity at a “green” tariff and under the market premium mechanism.

Fourth, in addition to the above efforts, we have allowed the export of biomethane by adopting the Law of Ukraine “On Amendments to the Customs Code of Ukraine and Other Laws of Ukraine Regarding the Peculiarities of Customs Control and Customs Clearance of Certain Categories of Goods” and issuing the relevant orders of the Ministry of Finance of Ukraine. In particular, the aforementioned Law simplified the procedures for exporting biomethane and ensured proper control and transparency of the process, which will contribute to more efficient exports of biomethane, opening new markets for Ukrainian enterprises, and strengthening integration with European energy markets. The implementation of such a policy also demonstrates our commitment to sustainable growth through an accelerated transition to distributed renewable generation.

Fifth, in order to improve the situation with the provision of loans and, accordingly, the accumulation of capital, the Law of Ukraine of September 19, 2014 No. 3980-IX “On the State Agrarian Register” was adopted, which allows financial institutions to access the State Agrarian Register to assess mortgage applications, which will help overcome information disputes and provide banks with a comprehensive view of the assets and economic activities of the applicant, and therefore, will contribute to the expand lending.

Sixth, to strengthen financial stability and improve access to finance for small and medium-sized enterprises, we adopted the Law of Ukraine No. 3985-IX of September 19, 2024 “On Amendments to the Code of Ukraine on Bankruptcy Procedures and Certain Other Legislative Acts of Ukraine on the Implementation of Directive 2019/1023 of the European Parliament and of the Council of the European Union and the Introduction of Preventive Restructuring Procedures” and the Law of Ukraine No. 3981-IX of September 19, 2014 “On Rating”. In particular, the Law of Ukraine No. 3985-IX of September 19, 2024 improves insolvency prevention procedures and implements the main provisions of EU Directive 2019/1023. The aforementioned Law introduces a preventive restructuring mechanism that provides enterprises experiencing financial difficulties with managerial, financial, legal and technical support to prevent insolvency. The Law of Ukraine No. 3981-IX of September 19, 2024, which regulates the rating agencies accreditation procedures and establishes the quality and integrity standards, determines a mechanism for preventing conflicts of interest, provides for transparency of ratings and methodologies, protects confidential information, and introduces appropriate supervision and regulation. The adoption of the said Law ensures that the regulatory framework for credit rating agencies is brought in line with the Principles of the International Organization of Securities Commissions (IOSCO), which will contribute to ensuring Ukraine's compliance with the requirements of EU Regulation No. 1060/2009 on credit ratings.

Seventh, we adopted the Law of Ukraine No. 3977-IX of September 17, 2024, which determines the specifics of admission to service in customs bodies and the service in customs bodies. In particular, the Law regulates the provisions of the Customs Code of Ukraine regarding the conclusion of a contract for service in customs bodies – determines the essential contract terms; it establishes a requirement to conduct an annual customs competency check; use of rotation mechanism; conducting a psychophysical survey and monitoring the lifestyle of customs officials, as well as reforms the procedure for electing heads of the State Customs Service. The said Law introduces a transparent procedure for competitive selection of the head of the service and provides for the significant participation of international experts with a decisive vote in determining a short list of two candidates, to be used by the Ministry of Finance of Ukraine to elect the head of the customs service. In accordance with our commitments under the IMF structural milestone, we will continue to apply the selection procedure for the appointment of a new Head of the State Customs Service of Ukraine until mid-2025.

In order to promptly implement the requirements of the Law of Ukraine No. 3977-IX dated September 17, 2024, the Cabinet of Ministers of Ukraine approved a plan for organizing the preparation of draft regulatory acts and performing other tasks necessary for the implementation of the Law, which determines specific measures to implement the relevant provisions of the Law of Ukraine No. 3977-IX dated September 17, 2024, the bodies responsible for their implementation, and the responsible structural units of the Secretariat of the Cabinet of Ministers of Ukraine, and also establishes the deadline for the implementation of each measure.

The reforms under the DPO support the implementation of macro-financial policies that stimulate economic growth.

First, increasing revenues is crucial to meeting fiscal needs and ensuring proper support for the national economy. Taking into account the reforms initiated by the World Bank under the Relief and Recovery Development Policy Operation we are moving closer to our goal of strengthening the land tax base. With the support of the first loan of the series of loans, a pilot project has been launched to use mass land valuation. The pilot project resulted in the calculation of mass land valuation, which is published on the official website of the State Geocadastre. The measures are planned to use mass land valuation to improve land taxation in Ukraine. Based on the feedback received, we will improve the methodology used to calculate mass land valuation, soil quality, distance to infrastructure, and ensure interoperability with the address and building registers after the relevant registers are established to link the facilities to the land plot, which will ensure the development of a land relations monitoring system. To implement such assessments, we plan to (i) amend the Land Code of Ukraine and other regulatory legal acts to enable the use of mass land valuation in the regions where the normative monetary valuation was used, and to assign responsibility for the administration of the geoinformation system for such valuation to the relevant authorities; (ii) approve, by decision of the Cabinet of Ministers of Ukraine, the methodology to be used and the frequency of updating valuations; (iii) update the Tax Code of Ukraine to introduce mass land valuations for land payment purposes in Ukraine, while establishing transitional provisions to prevent undue financial burden individuals or communities due to the said change.

Secondly, by the Law of Ukraine No. 3878-IX of July 18, 2024, we approved an increase in excise tax rates on motor fuel, which is identified as a priority in accordance with the National Revenue Strategy until 2030. In particular, the aforementioned Law obliges, each year, gradually over the next four years, to increase rates on gasoline, diesel fuel, liquefied gas and alternative motor fuel to the minimum established by the EU Directives, which will contribute to increasing domestic revenues, and reducing the volume of fossil fuel combustion and switch to the use of emission-free types of transport, such as electric vehicles.

Thirdly, we continued to improve the public procurement system to ensure the rational use of resources. In this regard, to prevent corruption in the field of public procurement, a joint order of the Ministry of Finance and the Ministry of Economy of Ukraine dated June 12, 2024 No. 66/3757 was adopted, according to which the state enterprise Prozorro provided the technical possibility of introducing automatic risk indicators. A draft Law of Ukraine “On Public Procurement”

(registration number 11520 dated August 23, 2024) was submitted to the Verkhovna Rada of Ukraine. The bill provides for expanding opportunities, as well as the introduction and adjustment of procurement instruments. The said draft law provides for the introduction of an innovative partnership procedure, dynamic procurement systems and project competitions, which contribute to greater transparency and efficiency of procurement. In addition, the draft law allows for joint and integrated procurement, revises the thresholds for the application of the provisions of the bill, and removes restrictions on the use of non-price factors when awarding contracts (except for open bidding procedures conducted during martial law and within two years after its lifting).

In addition to implementing measures under the Development Policy Support Loan, we remain committed to the structural reform agenda. Progress has been made in establishing a Reform Framework to better track reform implementation and we are working on establishing an institutional platform, the “Matrix Growth Lab,” to enhance the Government’s capacity to analyze and implement critical reforms. We are also developing a system of indicators that will help us track our progress and areas that need attention. We remain committed to implementing reforms under the IMF program and the EU Ukraine Facility for Ukraine, as evidenced by the adoption by the Verkhovna Rada of the Law of Ukraine of October 29, 2024 No. 4033-IX “On Amendments to the Criminal Code of Ukraine and the Criminal Procedure Code of Ukraine on Improving the Regulation of Plea Agreements in Criminal Proceedings for Corruption-Related Criminal Offenses”, which is effective from November 1, 2024. We also plan to implement the Roadmap set out in the National Revenue Strategy until 2030, including ensuring the transition to progressive income taxation, reforming the simplified taxation system, harmonizing the value-added tax payment mechanism with EU legislation, and abolishing reduced rates and benefits not provided for by the EU Value Added Tax Directive.

Sincerely,

Denys Shmyhal,
Prime Minister of Ukraine

Fund Relations Note

See the latest valid IMF press release for Ukraine: IMF (2024, October 18). IMF Executive Board Completes the Fifth Review of the Extended Fund Facility Arrangement for Ukraine [Press release]. <https://www.imf.org/en/News/Articles/2024/10/18/pr24381-ukraine-imf-executive-board-completes-fifth-rev-eff-arrangement>

Bibliography

Prior Actions	Bibliography and Findings
<p>Prior Action 1. To enhance the competitiveness of the railway market, the Borrower, through its Cabinet of Ministers, has submitted to the Verkhovna Rada, a draft law on railway transport that enhances competitive entry opportunities into</p>	<p>The <i>World Bank Ukraine Growth Study 2019</i>, the <i>Restoring Ukraine’s Economic Growth ASA</i>, the <i>Ukraine Private Sector Opportunities for a Green Resilient Reconstruction 2023</i> report identify distortions created by SOEs as a critical growth constraint, especially in the transport and financial sector, and propose reforms to enhance their competitive orientation.</p>

<p>the railway sector and improves its governance, as evidenced by Draft Law No. 12142, submitted to the Verkhovna Rada on October 21, 2024.</p>	<p>The <i>FY24 Ukraine Transport ASA</i> identifies critical elements of railway reform to open the sector.</p>
<p>Prior Action 2. To streamline the state’s participation in the banking sector, the Borrower has enacted a law establishing the legal parameters for the privatization of state-owned banks and aligning privatization procedures with international practice, as evidenced by Law No. 3983-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.</p>	
<p>Prior Action 3. To promote renewable energy generation, the Borrower, through its National Energy and Utilities Regulatory Commission (“NEURC”), has improved the necessary bylaw for the implementation procedures for the transparent auction-based incentive mechanism for renewables, as evidenced by NEURC Resolution No. 1381, dated July 26, 2024</p>	<p>The <i>Ukraine Private Sector Opportunities for a Green Resilient Reconstruction 2023</i> report identifies the importance of distributed renewable energy generation to reduce emissions and improve energy system resilience, and proposes to allow for biomethane exports.</p>
<p>Prior Action 4. To increase the production of diverse sources of renewable energy and to promote integration with European energy markets, the Borrower has enabled the export of biomethane, as evidenced by Law No. 3613-IX, dated March 20, 2024, and published in the Official Gazette on May 15, 2024, and Ministry of Finance Order No. 380, dated August 1, 2024.</p>	
<p>Prior Action 5. To improve credit flow and facilitate efficient support for the agricultural sector including disaster relief, the Borrower has enacted a law to operationalize and regulate the access of data by banks in the State Agrarian Registry and the registry’s use for public assistance, as evidenced by Law No. 3980-IX, dated September 19, 2024, and published in the Official Gazette on October 18, 2024.</p>	<p>The <i>Ukraine Private Sector Opportunities for a Green Resilient Reconstruction 2023</i> report recommends expanding access to credit for agricultural SMEs by using land as collateral.</p>
<p>Prior Action 6. To encourage credit flows to the private sector, the Borrowers has enacted: (i) a law on bankruptcy procedures that facilitates the restructuring and recovery of businesses before they become insolvent, as evidenced by Law No. 3985-IX, dated September 19, 2024, and published in the Official Gazette on October 23, 2024; and (ii) a law that establishes standards for and regulates rating agencies, as evidenced by Law No. 3981-IX, dated September 19, 2024, and published in the Official Gazette on October 19, 2024.</p>	<p><i>World Bank Review of Draft Law of Ukraine “On Amending Certain Laws of Ukraine Regarding the Simplification of Attracting Investments and Implementing New Financial Instrument”</i> identifies non-compliance of regulations with IOSCO principles.</p> <p>The <i>Restoring Ukraine’s Economic Growth ASA</i> identifies reforms to facilitate bankruptcy procedures as a priority to enable the financial sector’s support to growth.</p>
<p>Prior Action 7. To improve the integrity and competency of customs leadership, the Borrower has enacted a law reforming the leadership selection procedure for the head of the State</p>	<p><i>Restoring Ukraine’s Economic Growth ASA</i> and the <i>EUR Logistics ASA</i> identify large growth potential from trade facilitation and constraints related to border processing.</p>

<p>Customs Service, as evidenced by Law No. 3977-IX, dated September 17, 2024, and published in the Official Gazette on October 18, 2024.</p>	
<p>Prior Action 8. To advance the alignment of the valuation of the Borrower’s land tax base with market values, the StateGeoCadastre has published a land valuation for all commercial agricultural parcels located in regions where sales transactions for such parcels occurred from 2021 through 2024 (obtained as part of the Pilot Project on mass land evaluation) and recorded in the State Land Cadastre, as evidenced by the StateGeoCadastre Order No. 318, dated October 31, 2024, and the published data in the electronic services platform within the StateGeoCadastre official website.</p>	<p>A tax reform roadmap was developed within the framework of the <i>National Revenue Strategy</i> with technical assistance from the World Bank and the IMF. In it, and in background documents produced for the technical assistance during the preparation, the increases in the excise tax rate on fuel and the update of land mass valuations are identified as immediate priority reforms to strengthen revenue.</p> <p><i>Deininger and Ali (2023)</i> show that there is a large discrepancy between normative and actual land values. A World Bank background note for the <i>National Revenue Strategy</i> suggests using computerized mass valuation to close this gap.</p>
<p>Prior Action 9. To strengthen excise revenue generation from fuels, which also mitigates carbon emissions, the Borrower has enacted a law that approximates excise tax rates on motor fuel more closely with EU minimum levels, as evidenced by Law No. 3878-IX, dated July 18, 2024, and published in the Official Gazette on September 1, 2024.</p>	
<p>Prior Action 10. To improve transparent and efficient procurement, the Borrower: (i) through its Ministry of Finance, has mandated the use of updated automatic risk indicators and their publication as part of the State Audit Service’s regular reporting, as evidenced by the Ministry of Finance Order No. 476, dated September 27, 2024; and (ii) through its Cabinet of Ministers, has submitted to the Verkhovna Rada a draft procurement law to enable expansion and improved efficiencies of the Borrower’s electronic public procurement system, through the introduction of new procedures and optimization of existing procedures, as evidenced by Draft Law No. 11520, submitted to Verkhovna Rada on August 23, 2024.</p>	<p>Technical assistance under the <i>Ukraine: Procurement System Enhancement Project (P180126, RE)</i> has identified challenges related to automatic risk indicators and the procurement law and supports their updating.</p>