WORLD BANK GROUP

ESTABLISHMENT OF A FINANCIAL INTERMEDIARY FUND FOR UKRAINE

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ABBREVIATIONS AND ACRONYMS

EBRD	European Bank for Reconstruction and Development
EU	European Union
FCV	Fragility, Conflict, and Violence
FIF	Financial Intermediary Fund
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
PSO	Private Sector Opportunities
RDNA	Rapid Damage and Needs Assessment
UDP	Ukraine Donor Platform
URTF	Ukraine Relief, Recovery, Reconstruction, and Reform Trust Fund
WBG	World Bank Group

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I. Introduction

1. **This Paper set out the context, objective, structure, governance, and operating model for the establishment of a Financial Intermediary Fund (FIF) for Ukraine.** In line with the FIF Directive[1], it seeks approval from the Executive Directors for the establishment of the proposed FIF for Ukraine.

II. Country Context and the WBG's Experience

Context

2. **Russia's ongoing invasion of Ukraine continues to inflict terrible damage on the people, physical infrastructure, and economy of the country.** The Office of the High Commissioner for Human Rights[2] has recorded some 34,000 Ukrainian civilian casualties, including more than 11,200 civilian deaths. More than 6.3 million people have fled abroad, and millions remain internally displaced.[3] Loss of private sector jobs and income, risks to food security, high inflation, and asset losses have reversed 15 years of improvements in living standards. A recent "Listening to Ukraine" survey conducted by the World Bank reveals that more than a fifth of adults who were working before the invasion reported losing their jobs; some two-thirds of households have neither savings nor labor income. A third of surveyed families reported modifying or skipping meals altogether[4]. New analysis using national poverty lines and 2023 data indicates that three of every ten Ukrainians now live in poverty, meaning some $1.8 million newly poor since end-2021.

3. **The third Rapid Damage and Needs Assessment, covering the period from February 2022 through December 2023, estimates that direct damage has reached $152 billion, with reconstruction needs estimated at $486 billion over the next ten years.**[5] The most affected sectors are housing (almost $56 billion, or 37 percent of total damage), transport (almost $34 billion, or 22 percent), commerce and industry (almost $16 billion, or 10 percent), energy (almost $11 billion, or 7 percent), and agriculture ($10 billion, or 7 percent). These estimates do not include the damage inflicted by intensified attacks on Ukraine's critical infrastructure from March 2024 that led to loss of around 7GW of generation capacity and major power outages across the country.

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[1] https://ppfdocuments.azureedge.net/d2658e30-3a2e-47d9-ad96-ea63e28581e0.pdf

[2] United Nations. "Ukraine: Protection of Civilians in Armed Conflict, June 2024 Update."

[3] UNHCR

[4] World World Bank. Listening to Citizens of Ukraine - The Poverty and Human Impacts of Russia's Invasion of Ukraine (English). Washington, D.C. : World World Bank Group. http://documents.worldWorld Bank.org/curated/en/099062624132031216/P1793871442d0600e19d761324c0a3364f4

[5] https://documents1.worldWorld Bank.org/curated/en/099021324115085807/pdf/P1801741bea12c012189ca16d95d8c2556a.pdf

4. **Restoring Ukraine's productive capacity and reversing the destructive impact of the invasion will require significant public intervention, including to stimulate private sector financing.** This includes improved planning and rebuilding of essential infrastructure, incentivizing private sector investment in the face of great uncertainty and supporting the continued stability of the financial sector and its ability to intermediate financing to support the economy. Mobilizing private financing for reconstruction and recovery to complement scarce public resources will be essential. The WBG's report, *Private Sector Opportunities for a Green and Resilient Reconstruction in Ukraine*[6] (PSO), estimates that with an accelerated agenda of pro-competition reforms and deeper integration with the European Union (EU) and international markets, the private sector could finance up to one-third of recovery and reconstruction needs, especially in the infrastructure sectors. The report also estimates an additional $282 billion of investment opportunities for the private sector to support the modernization, sustainability, and increased competitiveness of Ukraine's economy beyond the needs outlined in the Rapid Damage and Needs Assessment (RDNA). Supported by development partners, including the WBG, the Government of Ukraine has made significant progress on reforms. The approval of the Ukraine Plan as part of the EU €50 billion Ukraine Facility and the development of a Reform Matrix supported by the WBG has helped systematize and prioritize the reform program for the next four years.

5. **New funding is expected from Ukraine's main donors.** Canada, Japan, and the United States have committed to contribute to a new FIF for Ukraine, signaling their intent to channel at least $10 billion collectively to this FIF, subject to necessary procedures, approvals, and authorities. The United Kingdom is ready to contribute to the FIF if necessary to enable its commencement. This proposed FIF would welcome contributions from all partners for the recovery, reconstruction, and reform needs of Ukraine, consistent with the directions to be set out by its Governing Committee. Contributors to the FIF would each sign a FIF Contribution Agreement/Arrangement with the World Bank in its capacity as trustee. Consistent with World Bank policy, any funds from the G7 or other sources intended for military support would not be channeled through this FIF or the World Bank.

Why is this FIF needed?

6. **This FIF responds to the extraordinary needs that Ukraine faces to address its budgetary, recovery, and reconstruction needs resulting from Russia's invasion and the requirements that contributors have articulated for a new targeted instrument to help Ukraine meet these pressing needs.** As noted above, Ukraine's reconstruction needs are now estimated at $486 billion over the next ten years, and $122 billion of external financing is needed to meet the country's fiscal financing needs over the 2023-2027 period, as per the Fourth Review of the International Monetary Funds (IMF)'s Extended Fund Facility for Ukraine in June 2024.[7] While the World Bank and partners have developed key initiatives[8] to provide assistance to

[6] Both volumes of the PSO report can be found here.

[7] Ukraine: Fourth Review of the Extended Arrangement under the Extended Fund Facility, Request for Modifications of a Performance Criterion, and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for Ukraine (June 28, 2024). Link.

[8] World Bank Group Financing Support Mobilization to Ukraine since February 24, 2022 can be found here.

Ukraine, these do not approach the size and scope of Ukraine's full needs over the 2023-2027 period, particularly as the conflict continues well into its third year and continues to inflict devastating consequences on Ukraine. Timely and predictable external financial support remains critical to maintaining Ukraine's macroeconomic stability. Contributors are now seeking an instrument that (i) will allow streamlined access by Ukraine's key implementing partners and (ii) can accommodate the strong governance and operating requirements contributors seek in providing such large-scale support. This FIF is meant to address these needs.

The Proposed FIF

Objectives and Value Added

7. **The objective of this FIF is to provide a coordinated financing and support mechanism to assist Ukraine in sustaining its administrative and service delivery capacity, and plan and implement its recovery, reconstruction, and reform agenda.** This FIF will provide grants to finance projects, programs, and activities that support Ukraine in addressing these points, consistent with objectives including sustaining macroeconomic stability, promoting the country's reform agenda, restoring debt sustainability, and ensuring coherence with the IMF's engagements with Ukraine.

8. **This FIF will add value at this critical juncture through its ability to engage key implementing partners and to meet contributors' key governance and operating requirements for new large-scale funding.** By working with key implementing partners, this FIF can increase the coherence of the pipeline of activities from different partners with different comparative advantages, thereby increasing the quality and timeliness of projects available from this funding and reducing transaction costs for Ukraine. This FIF will also have the flexibility to accommodate new implementing partners, as the situation evolves and new partners emerge to help Ukraine meet its unique challenges. Additionally, contributor countries are seeking to make new large-scale funding available for Ukraine, for which they require a strong contributor governance structure that a FIF can offer within the WBG context. This FIF is also expected to benefit from insights from the Technical Secretariat of the Ukraine Donor Platform (UDP) for Ukraine[9], and will support the Government of Ukraine's strong efforts to enhance its public investment management for long-term impact.[10]

9. **The proposed design of the Fund is based on best practices in other FIFs with which the World Bank has extensive experience (see Box 1).** This includes experience with the establishment of a single-country FIF to support the reconstruction and economic recovery of Haiti following the catastrophic earthquake in 2010. The new Fund leverages the WBG's financial platforms and its deep engagement with Ukraine, particularly in helping the country meet the enormous challenges since February 2022.

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[9] https://ukrainedonorplatform.com/

[10] https://mof.gov.ua/storage/files/PIM%20roadmap_final.pdf

Box 1: Best Practices in the Structure and Governance of FIFs

The World Bank currently provides Trustee service to 27 FIFs with over US$37 billion of funds held in trust. For many of these FIFs, the World Bank also provides Secretariat functions and serves as one of the implementing agencies. The following are some of the best practices in FIF design:

• An inclusive Governing Committee that comprises representatives from donors, as well as beneficiary countries;

• A clear decision-making and funds allocation role for the Governing Committee;

• Secretariat and Trustee functions housed in the same institution, to take advantage of common systems, policies and procedures;

• The use of MDBs as implementing entities, relying on their sound financial and program management policies, procedures and experience, and in which the same contributors to the fund often participate in their governance;

• The use of a pooled approach to contributions for enhanced efficiency;

• Costs for all services provided by the Trustee, Secretariat and implementing entities covered by contributions to the FIF on the principle of full cost recovery, subject to annual budgets submitted for the Governing Committee's approval.

Focus Areas for Financing

10. **In line with the proposed objective, this FIF would provide financing to support Ukraine's (1) reform efforts and macroeconomic stability and (2) recovery and reconstruction efforts.** Priority areas of support would include: (i) provision of public services, (ii) repairing essential infrastructure, and (iii) sustaining the economy and private sector. Subject to applicable policies and procedures for each implementing entity, the FIF is envisioned to provide grants to support a variety of operational instruments, including fast-disbursing budget support, investment projects, reform- and results-based financing and budget support, private sector investment, and guarantees. In short, this FIF would be able to offer the full suite of tools that Ukraine needs now and in the future. Given that the FIF will be focused on providing timely and predictable external financial support, FIF disbursements will rely on the standard fiduciary, oversight, use of funds, risk mitigation, and accountability requirements of the World Bank or other Implementing Entity operations, and any conditions that apply to a specific operation that the Government of Ukraine and World Bank or other Implementing Entity bring forward to the Governing Committee.

Proposed Structure, Governance and Operating Arrangements

11. **The Fund would be established as a FIF at the World Bank**. In addition to the contributors already expressing their planned support, the FIF will also be open to contributions from other donors. The governing and administrative bodies of this FIF are the Governing

Committee, the Secretariat, and the Trustee**.** The Implementing Entities will support the implementation of projects, programs, and activities under the FIF.

Governing Committee

12. **The Governing Committee** will be the supreme governing body of this FIF and will comprise members and observers. The Governing Committee will set the strategic directions of the fund, adopt a Governance Framework and Operations Manual, review and approve funding allocations, approve workplans and budgets, and provide regular monitoring and oversight of the FIF.

a. **Members.** Members of the Governing Committee will consist of contributors and the Government of Ukraine. As a member, the Government of Ukraine will provide critical input on its budget needs, recovery and reconstruction priorities, and how FIF activities will complement broader donor assistance for Ukraine. Contributors, together with the Government of Ukraine, will agree on the details and parameters of the Government of Ukraine's role as a member of the Governing Committee as part of the FIF's Governance Framework and Operations Manual.

b. **Observers.** Observers would be expected to include the Trustee; the Secretariat; the Implementing Entities; as well as possibly the Technical Secretariat of the UDP for Ukraine; and any other entity or entities approved by the Governing Committee in line with the Operations Manual. Observers may participate in meetings of the Governing Committee without decision-making power and in accordance with the rules of procedure of the Governing Committee as set out in the Operations Manual.

Secretariat

13. A **Secretariat** would be established at the World Bank. Its principal function would be to support the day-to-day operations of the FIF and its Governing Committee. The Secretariat performs administrative and program management functions, including support to the Governing Committee in the delivery of its roles and responsibilities. Secretariat staff would be World Bank employees, subject to World Bank policies and procedures.

14. **Operations Manual.** Subject to approval of this FIF, the Secretariat will prepare an Operations Manual for adoption by the Governing Committee. The manual will set out the rules and procedures for the Governing Committee business and operating principles and guidelines for the operations of the FIF, including eligibility, resource allocation criteria, process and a common format for funding requests, disclosure, and conflict of interest.

Trustee

15. The World Bank would serve as **Trustee**, drawing on its extensive experience with the provision of such services for other FIFs. As Trustee, the World Bank would sign Contribution Agreements/ Arrangements with each contributor, receive and manage contributor funds, and upon instructions from the Governing Committee, transfer funds to Implementing Entities, who would then prepare and manage projects, programs, and activities with Ukraine in accordance with their policies and procedures. The Trustee would also be responsible for requiring and accepting

periodic financial reports from the Implementing Entities in line with Financial Procedures Agreement, providing regular reports on the financial status of the FIF to the Governing Committee, among other functions.

16. Neither the Secretariat nor the Trustee has responsibility for: (a) the use of funds transferred to Implementing Entities from the FIF and activities carried out therewith, or (b) reviewing the appropriateness of any decision by the Governing Committee. Each Implementing Entity is responsible for reporting through the Secretariat to the Governing Committee on the use of the FIF funds transferred to it and its activities carried out therewith in accordance with its respective policies and procedures and the terms of the applicable Financial Procedures Agreement.

17. Support to this FIF would be provided by the Trustee and the Secretariat on the principle of full **cost recovery**, to be covered by the FIF. The Trustee and the Secretariat, respectively, will submit regular work plans and indicative budgets to the Governing Committee for approval setting out the allocation of FIF funds to cover the estimated full costs of services to be provided by the Trustee and the Secretariat in the upcoming period.

Implementing Entities

18. **Implementing Entities.** The World Bank Group (including IBRD, IFC, and MIGA) and the European Bank for Reconstruction and Development (EBRD) are eligible to act as Implementing Entities for this FIF. Other entities could be accredited by the Governing Committee through a process satisfactory to the Trustee, as set out in the Operations Manual.[11] Implementing Entities will be responsible for administering the FIF funds transferred to them, providing implementation support to the beneficiaries of the FIF funding, providing financial and progress reporting to the Governing Committee through the Trustee and the Secretariat, respectively, and cooperating on any reviews and evaluations of the FIF under terms acceptable to the Implementing Entities.

Operating Modalities

19. **The World Bank will draw on good practices to ensure a streamlined and efficient operating structure and processes for the FIF as well as transparency and accountability, and with clear results indicators that help inform operations.** Operating modalities would be set out in the FIF's Operations Manual that would be adopted by the Governing Committee at its first meeting. These documents would lay out, among other things, the FIF's operating principles, including eligibility, resource allocation criteria and processes, and a common approach for implementing entities to submit funding requests, reporting, disclosure, and conflict of interest.

20. **Decisions on funding allocations would be made and approved by the Governing Committee, based on the criteria and process detailed in the FIF's Operations Manual and guided by impact.** Implementing entities would submit funding proposals, in writing, and in accordance with the template and guidelines to be set out in the FIF's Operations Manual. The Secretariat would screen funding proposals submitted to ensure completeness and overall

[11] Eligible entities may participate in the FIF as Implementing Entities by entering into Financial Procedures Agreements with the Trustee, after which they become eligible to submit funding requests to the FIF through the Secretariat to seek allocations.

consistency with the FIF's Governance Framework, Operations Manual, and results framework (as applicable), utilizing a process and timeline agreed upon and endorsed by the Governing Committee. The Governing Committee would approve and award funding for proposals based on criteria it will establish. Allocations made by the Governing Committee would be committed and transferred by the Trustee to the implementing entity, used by the implementing entity, reported upon by the implementing entity, and returned where applicable to the FIF by the implementing entity.

21. **Reporting and Results Monitoring.** The Secretariat would track progress based on reports submitted by the Implementing Entities, and compile regular reports based on individual progress reports received from Implementing Entities during the reporting period. In addition, the Trustee would submit to the Governing Committee annual reports on the financial status of the FIF. This reporting system will support the Governing Committee to oversee allocations and achievement of outputs and outcomes for FIF-financed activities.

22. **Risk Management.** Each implementing entity would be responsible for the management of risks associated with the respective projects and programs implemented by them, and reporting on such risks and mitigation measures, as appropriate, as part of its progress and results reporting. The Trustee would manage financial risks associated with administration of the FIF and its resources until such time as they are transferred to Implementing Entities or returned to contributors in accordance with the provisions of the Contribution Agreements. The Governing Committee would have oversight of the risk management approach and risk appetite at the portfolio level.

Alternatives Considered

23. **Given the complexity of establishing and managing a FIF, multiple alternatives were considered.** These included establishing a new multi-donor trust fund (MDTF) or amending a current one, including Umbrella 2.0 Programs (such as the Ukraine Relief, Recovery, Reconstruction, and Reform Trust Fund – URTF) to include sufficient mechanisms to allow multiple implementing partners, such as through transfer out.[12] However, the proposed design of this FIF responds to unique requests by its founding contributors to have the fund 's support open to Ukraine's key implementing partners by design and without the limitations associated with the transfer out mechanism (limit on the share of trust fund resources that can be transferred to Implementing Entities other than the World Bank) and avail themselves of the FIF's strong contributor governance and operating structure. Both of these elements – implementing partner model and contributor governance – are well-established key features of FIFs, making the establishment of this FIF well justified. Both elements may grow in importance over time, including the need for flexibility and more implementing entities as Ukraine's situation evolves.

Risks and Mitigation Measures

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[12] For more information on the transfer out mechanism, please refer to *Eligibility Criteria for Transfer-Out from World Bank Trust Funds*, R2024-0133, IDA/R2024-0186.

24. **Key risks to be assessed in a FIF-supported partnership include: i) strategic risk; ii) operational risk; iii) stakeholder risk; iv) financial risk; v) legal risk; and vi) portfolio risk.** A summary of the risk assessment of the proposed FIF across these six dimensions is provided below.

25. **Strategic Risk.** The proposed FIF is aligned with the World Bank's Fragility, Conflict and Violence (FCV) strategy[13] , which underlines that the World Bank's engagement in countries impacted by violence and conflict is critical to achieving the World Bank's twin goals and calls for scaling up the volumes and types of financial support it provides for FCV, including in middle-income countries. The activities of the proposed FIF are aligned with the WBG approach to supporting Ukraine, including the Ukraine Country Program Update and Outlook (June 2023). The strategic risk is assessed as low.

26. **Operational Risk.** In the context of FIFs, operational risk refers to risks to the World Bank's ability to carry out its roles and responsibilities within a FIF consistent with the World Bank's policies and procedures. In the case at hand, the World Bank has ample experience in all three roles, and no specific impediment is anticipated in this regard. One aspect of operational risk would be oversight and implementation support of projects; this is also expected to be low given that only MDBs are anticipated as implementing entities. However, it is noted that, given the unpredictable security situation and challenging economic and political context, the overall risk of most operations financed in Ukraine has been assessed as high, and these risks cannot be fully mitigated. Overall, the operational risk related to the FIF is assessed as moderate.

27. **Stakeholder Risk.** In accordance with the FIF Management Framework and Directive, Management is seeking Board approval for the establishment of this FIF, helping ensure WBG shareholder and stakeholder support for this new financing instrument. The World Bank has been a critical partner of Ukraine since the beginning of the conflict. It has a unique expertise and capacity to establish and manage multi-stakeholder initiatives in support of calls for multilateral action. The proposed FIF is fully aligned with the World Bank's relevant strategies and conforms to the FIF Management Framework and Directive. Overall, the risk is assessed as low.

28. **Financial risk.** The FIF will be an off-balance sheet vehicle with no potential impacts on IBRD or IDA or their perceived standing in financial markets. The proposed FIF would operate based on full cost recovery for the roles of trustee and host of the FIF Secretariat. For the role of the World Bank as an Implementing Entity, the cost recovery approach would build on the experience with the Public Expenditures for Administrative Capacity Endurance (PEACE) TF, recognizing the size of the project vis-a-vis the cost of executing the project. Hence, there would be no new implications for the World Bank's budget. The financial risk is therefore assessed as low.

29. **Legal Risk.** The primary legal risk relates to the World Bank being exposed to liability for any claims arising from acting as Trustee or host of the Secretariat. Legal documents to establish

[13] The Pathways for Peace report (https://www.pathwaysforpeace.org/) and the World World Bank Group Strategy for FCV, 2020–2025 (http://documents.worldWorld Bank.org/curated/en/844591582815510521/World-World Bank-Group-Strategy-for-Fragility-Conflict-and-Violence-2020-2025) lay out effective approaches to address drivers of fragility and build for peace through operations.

the FIF will be negotiated by the World Bank's Legal team such that they do not contain any provisions that could lead to an erosion or loss of privileges and immunities for example by explicitly or implicitly agreeing to, among other things, the application of national law on World Bank activities, jurisdiction of local courts over the World Bank, contractual or third-party claims against the World Bank, or World Bank obligation to perform activities that are or may be perceived as outside the World Bank's mandate. In addition, as with other financing for fragile, conflict and violence affected countries or regions, the political tensions surrounding the conflict presents a risk to the World Bank. This risk is mitigated by the compelling economic and development rationales for the FIF. Finally, as with all FIFs, the World Bank as Trustee or host of the Secretariat would have no responsibility for the use of funds transferred to implementing entities in accordance with instructions from its governing body; however, the World Bank as an implementing entity of the FIF's funds would have its normal responsibilities for oversight and implementation support, which would be managed as the World Bank does with all operations in Ukraine and globally. Overall, the legal risk is assessed as moderate.

30. **Portfolio Risk.** This FIF would provide funds to the WBG and other accredited implementing partners, who are already active in Ukraine, and allow them to scale up their existing programs. As such, it does not cause any risk to the broader aid architecture. The portfolio risk is therefore rated low.

Conclusion and Next Steps

31. **The aim is to launch this FIF by the fall of 2024.** The FIF's Governing Committee is expected to have its first meeting soon thereafter, at which time the FIF will be launched and become operational. Should the final structure, governance and operating arrangements deviate significantly from the description provided in this paper, Management will update Executive Directors accordingly.

32. **Executive Directors are hereby requested to approve Management's proposed approach, as described herein, including: i) the establishment of the proposed Financial Intermediary Fund at the World Bank; and ii) WBG support to the FIF by acting as Secretariat, Trustee, and Implementing Entities.**