

World Bank – Ukraine Partnership

Program Snapshot

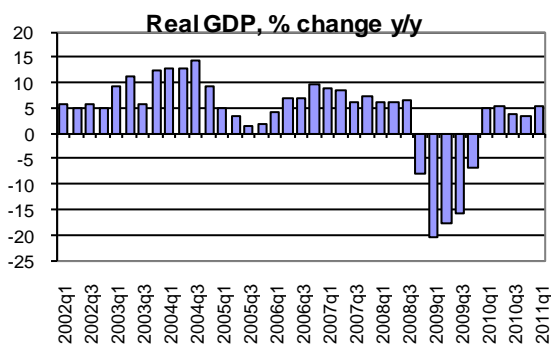


September, 2011

RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

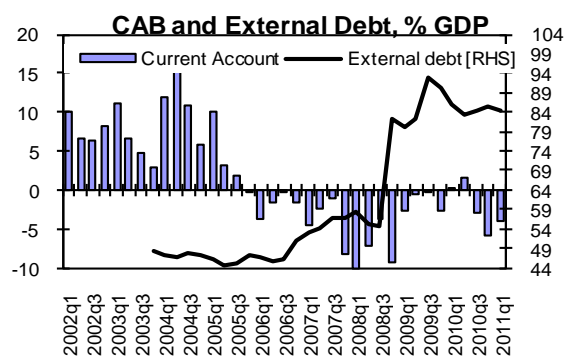
GROWTH AND EXTERNAL PERFORMANCE

Ukraine's economy returned to growth in 2010, but the recovery remains fragile and governance concerns have increased. Real GDP grew 4.2 percent in 2010, posted 5.3 percent growth in the first quarter of 2011 and then decelerated to an estimated 3.8 percent in the second quarter. The data indicate an increasing role of domestic demand driving growth. Industrial production is growing at some 8 percent but growth rates are volatile, highlighting the dependence on few commodity prices such as steel. The negotiations for a DCFTA with the European Union are progressing and could serve as one of the anchors for reform. Meanwhile, policy interventions in the agriculture sector, delays in VAT refunds, and sometimes uneven application of existing legislation have increased governance concerns. This has been delaying long term **Foreign Direct Investment (FDI)** that is needed to modernize the economy.



Improved external debt roll-over rates have financed the widening current account deficit, but FDI remains subdued. Despite an export growth of 4.6 percent, the current account deficit deteriorated in 2010, leading to USD 2.9 billion (2.1 percent GDP) deficit for the year. This trend has continued into 2011, as the current account posted a USD 2.5 billion deficit in the first half of 2011. The key factors driving this situation are the recovery of domestic demand for imports and the introduction of export quotas on grain in the fall of 2010 (and other policy interventions in the agriculture sector). At the same time, external private debt roll-over rates improved to 109

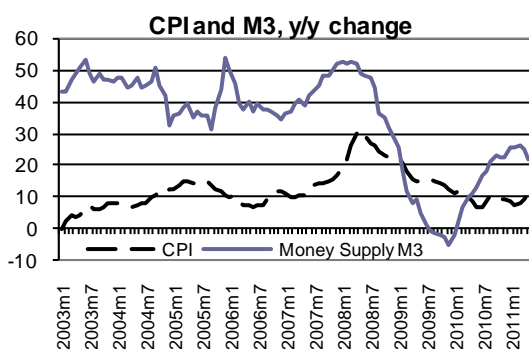
percent in 2010, supporting net inflows of the capital account. Inflows in the capital account covered the current account deficit and allowed the National Bank to improve its forex reserves position in the first half of 2011. Net FDI inflows amounted to 4.2 percent GDP in 2010. FDI flows remain low compared to the pre-crisis level, partly due to governance concerns and policy interventions of the government that affect the investment climate across different sectors of the economy. Ukraine remains very vulnerable to changing market sentiment in the very volatile global environment.



Monetary policy has been anchored in exchange rate stability with growing attention to inflation. Amendments to the law on the National bank of Ukraine (adopted in mid-2010) shifted the focus of policy objectives towards price stability as the primary objective. However, to date the NBU de facto seems to consider exchange rate stability as the anchor of macroeconomic stability, trying to avoid excessive fluctuations. As a result, inflation dynamics have been more volatile than the exchange rate to the USD (that hovers at around 8 hryvnia per USD since mid-2009). The output gap, administrative price interventions (e.g., food and gasoline), and delays in utility price adjustments, kept CPI below 10 percent y/y in the first quarter of 2011. But given the low statistical base of 2010 and with cost pressures mounting, the CPI increased to 10.6 percent y/y by July.

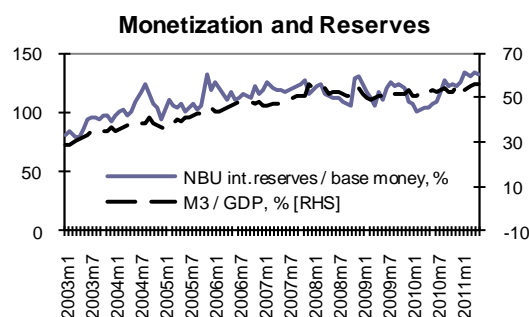
Fiscal policy has been concentrated on the gradual reduction of the deficit, but structural measures to secure sustainability need to be implemented. The IMF supported program (approved in July 2010) set the general government deficit for 2010 at 5.5 percent of GDP and 3.5 percent in 2011. In addition, the

SOE Naftogaz was expected to run a 1 percent of GDP deficit in 2010 and balance its finances in 2011. The target for 2010 was missed, chiefly on the account of a larger deficit in Naftogaz. A steady program of tariff increases in gas and heating is needed to entrench the process of fiscal consolidation. Ukraine spent 18 percent of GDP in pensions in 2010 and the system's deficit is on an unsustainable path. Bank staff estimates that in 10 years there will be 1 pensioner for every single contributor to the system and this ratio will worsen sharply after that due to the country's aging population. The implementation of pension reform is essential to restore sustainability to the system. These reforms, together with the other measures in the expenditure side are critical to stabilize public debt (currently above 40 percent of GDP). While progress on reducing the deficit has been achieved, deeper fiscal reforms need to be taken to restore sustainability to public finances.



Bank staff expects a continued but fragile recovery with 4.5 percent growth in 2011. While first quarter data point to faster dynamics, bank staff foresees more subdued growth in the rest of the year as export demand is likely to remain moderate and the cost of imported natural gas continues to increase (due to the price formula in the contract with Gazprom that is driven by a 9 month lag to oil prices). Under current policy conditions, growth rates would be around 4.5 percent in 2012-2013 (well below Ukraine's potential) as commercial bank lending to the economy recovers, but with a continued widening of the current account deficit. Assuming the IMF program carries on, flows of financing for the current account deficit would be secured and progress on fiscal consolidation would be achieved through pension reform, utility tariff increases, and additional measures. On the other

hand, further delays of these reforms and pre-parliamentary election spending in 2011 and into 2012 would seriously compromise the sustainability of public finances. This, together with ill-advised export restrictions in the agriculture sector may lead to widening current account deficits, complicating the balance of payments outlook for 2012. The required tariff increases would keep the headline inflation at low double-digit level, before retreating to single digits by 2013 in line with stated government objectives.



FINANCIAL SECTOR

Responding to Financial Crisis

Ukraine's response to the financial crisis was quick and timely, and The World Bank delivered critical support in implementation of the government's anti-crisis strategy. Through the Programmatic Financial Rehabilitation Development Policy Loan and associated TA, the Bank helped to stabilize the core of the financial system and stop the leakage of deposits in the first half of 2009. A framework was established for recapitalization of systemic problem banks by the state, recapitalization of all other banks by their owners, and for least-cost resolution of non-systemic problem banks. The Deposit Insurance Fund's deposit payout capabilities were strengthened in 2009, while in 2010 it embarked on an ambitious reform of also becoming a problem bank resolution agency. In 2010-2011, new laws on stronger banking sector transparency and supervision have been enacted.

The Bank is actively working with the Government and the National Bank of Ukraine and other financial regulators on strengthening policy and regulatory role of the state in financial sector, while consolidating state's ownership of financial institutions.



Supporting the Real Sector Growth through Development of Export

The Bank has supported developments of Ukraine export sector since 1997. The First Export Development Project (EDP) was completed in 2004. The EDP 2 serves as a catalyst to support export and real sector growth in Ukraine during its implementation period (2006-2011) and beyond, by providing medium and long-term working capital and investment finance to Ukrainian private exporting enterprises. The EDP2 credit line has been instrumental in providing long-term foreign currency financing to eligible exporters during the economic and financial crisis and ensuing credit crunch. Of the total amount, over USD 55 million were approved and disbursed under the project during FY 2010-2011. To date, over USD 130 million has been disbursed, including twenty-eight loans for an amount totaling over USD 122 million, covering a variety of industries and geographical regions. Nearly all borrowers under the project permanently and substantially expanded their exports volumes. Additional financing in an amount of USD 150 million was approved in August 2011, allowing the project to continue to support Ukraine's export development and diversification.

POVERTY AND SOCIAL PROTECTION

Improving Targeted Social Assistance

The Social Assistance System Modernization project (SASMP) and the DPL program have supported an active policy dialogue on targeting accuracy. Under SASMP, a new One Stop Shop business model for client intake and benefits administration implemented in almost all Local Welfare Offices has allowed reducing time for

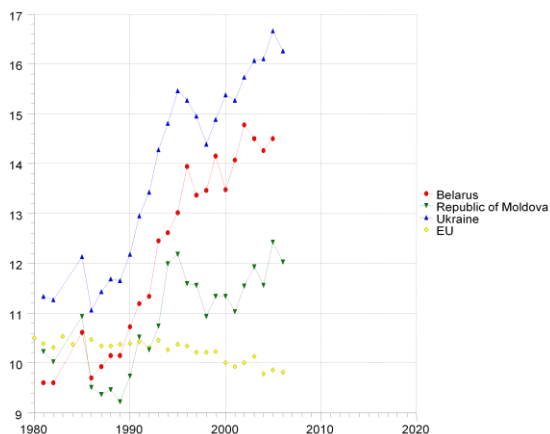
processing benefit application from 4.5 to 1.4 hours. Such efficiency improvements have also allowed staff in LWOs to process more benefits per month (370 up from 260), thus containing the growth of administrative costs of social assistance programs. Renovations have been accomplished in 720 offices while the entire network will be done by January 1, 2013. This has allowed delivery of benefits and related services in better, more dignified conditions. Development of the modern integrated system for benefits data processing is a key input yet to be delivered. Such an ICT system will serve as a backbone for further quality improvements in benefits administration and program management, underpinning further reform efforts.



HEALTH DEVELOPMENT

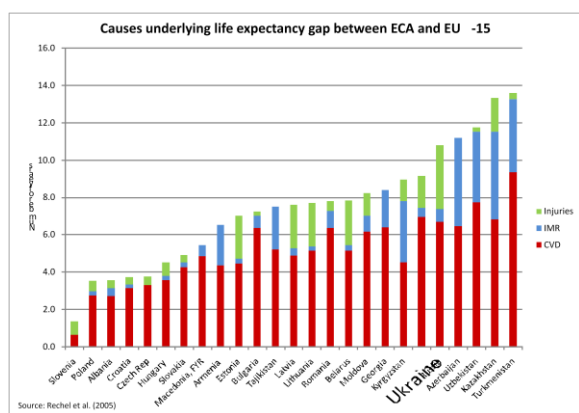
The health system in Ukraine has not yet been reformed. The health sector is one of the key areas of discontent and perceived underperformance according to population surveys conducted in 2007 and 2010 (Life in Transition Surveys, jointly implemented by EBRD and the World Bank). Between 1970 and 2010 Ukraine "gained" 92 positions in ranking according to adult male mortality (probability to die between age 15 and 60), and now ranks near the very top of all nations, and 97 positions in female mortality. Crude adult death rates in Ukraine are among the highest not only in Europe, but in the world, and higher than its immediate neighbors, Moldova and Belarus.

Table: Crude death rate per 1,000 population



Non Communicable Diseases and Injuries are the main culprits for the mortality crisis in Ukraine: As in all former socialist economies (FSE), the mortality gap vis-a-vis Western Europe in Ukraine is largely explained by non-communicable diseases (first in order of importance is cardiovascular disease, which in Ukraine are responsible for approximately 70 percent of the total number of deaths), followed by injuries and poisoning (14 percent, most of which are alcohol-related and traffic-related injuries), and communicable diseases (7 percent).

Table: Life expectancy gap between ECA and EU



Key Reform Pillars: Together, the evidence shows that Ukraine is facing a health crisis, and that the country needs to take urgent, appropriate and profound reform measures of its health system, to reverse the progressive deterioration of its citizens' health. The overarching goal of these reforms is to create a health system that is responsive to clients, transparent, efficient and

effective in its interventions, equitable, and prevention-oriented. The specific reforms measures which would contribute to achieve this overarching objective include:

- Correct current considerable overcapacity in the hospital sector and modernize/improve quality in remaining hospitals, with creation of hospital networks and establishment of continuous quality enhancements processes in hospitals.
- Scale up preventive and primary care, and adopt systematic approach to non-communicable diseases prevention and control;
- Change fragmented, input-based norms that drive budgeting and allocation of resources at different levels;
- Reduce share of out-of-pocket payments (OOP) – up to 50 percent of total expenditure- by legalizing co-payments and closing the gap between what the state promises and what is able to provide.
- Policy and regulations: Clear definition of roles and responsibilities of staff at different levels, separation of purchasers from providers, improving the monitoring system, enhancing accountability to patients, managing and paying for results, improving procurement practices for drugs and equipment, etc.
- Develop a long-term health sector strategy focusing not only on services provision, but on public health measures to improve populations' health;
- Improve managerial capacities of health administrators at all level, to strengthen HS governance function.

EDUCATION

Promoting Better Education. Literacy rate and enrollment remain high in Ukraine. However, demographic and economic realities require the school network to be downsized so that the limited resources available can be put to better use to improve the quality of the education provided. While there is shortage of places in childcare facilities, Ukraine has an oversized school

network. The number of teachers and schools barely changed despite the severe (40 percent) decline in student population over the last two decades. Efficiency indicators including the average school size and the student-teacher ratio (9 on average, one of the lowest in the world) have been falling sharply. Larger budget allocations to education have not resulted in improvements in the quality of education. In international assessment of student learning in Math and Science for 4th- and 8th-graders in 2007 Ukraine scored both below TIMSS average and below regional comparators such as Armenia, Russia, Lithuania or Kazakhstan.



In this environment, Ukraine's priority should be to make better use of the resources allocated for the sector by significantly downsizing the school network to fit the smaller (current and projected) cohorts of student. With a smaller network in place, the sector's resources could be reallocated to quality-enhancing inputs. The key reforms required encompass the school network optimization, revision of input-based norms, ensuring higher autonomy and accountability of the services providers, participation in international assessments with feedback into policy design.

After the closure of the Equal Access to Quality Education project at the end of 2010, **the Bank continues the policy dialogue** with the government related **on optimization and efficiency agenda** in line with the Program of Economic Reforms. The recent World Bank study 'Is Optimization An Opportunity?: An Assessment of the Impact of Class Size and School Size on the Performance of Ukrainian Secondary Schools' finds that bigger secondary schools in Ukraine tend to have somewhat better performance, both in terms of test scores and in

terms of test participation, while the size of classes does not matter. So optimization of the secondary school network is unlikely to negatively affect the quality of education if access is properly ensured. Another type of assistance will come from **the BOOST Public Expenditure Data Analysis initiative** aimed at increasing efficiency through improving government information about public spending in the area of education and increasing the government capacity to analyze public spending.

LABOR MARKET

Just like in other countries of the Europe and Central Asia (ECA) region, the Ukrainian labor market has been severely affected by the financial crisis. The unemployment rate increased significantly at the beginning of 2009 - to 9.5 percent and today stands at 8.7 percent. Unemployment of youth remains a problem with large number of graduates being unable to find a job after graduation. **World Bank analytical work** supports the Government of Ukraine in addressing some of the challenges that the Ukrainian labor market currently faces including low internal mobility in the country, acute informal employment and skills mismatch.

Low internal mobility. Growing international evidence suggests that internal labor mobility tends to have positive effects on countries' productivity and growth. In Ukraine the rate of internal migration is low when compared to other countries. People do not move, even though, labor market disparities in terms of unemployment rates and average wage levels are high and persistent. This suggests that the Ukrainian population is not responding to economic opportunities outside their current place of residence. The relevant policy questions are, therefore, why internal migration is low despite there being potential returns to moving and what barriers hinder internal labor mobility in Ukraine.

Informal employment in Ukraine is significant. In 2010, 4.6 million people in Ukraine worked in the informal sector, equivalent to 22.9 percent of the total employment. Reducing informality is important for Ukraine's development in terms of social cohesion, protection of workers, labor and product market efficiency, increased productivity, rule of law, and governance. **The four technical**

notes prepared by the Bank on request of the government provide an overview of the scope and main characteristics of informal employment in Ukraine and present international experience in addressing this issue. They also cover international experience of reforms with regard to the labor code and labor inspection services which are an integral part of a comprehensive policy to reduce informality.

Skills mismatch. Education and training are recognized to be central for economic development. Skills are at the core of improving employment outcomes and increasing productivity and growth. Education and training systems, however, may not always provide the necessary skills to succeed in the labor market. For example, 20 percent of Ukrainian firms regard the skills of the workers as a major obstacle to their firm's operation and growth. While firms in the country face a shortage of skilled workers, many university graduates can't find any employment or end up in jobs that do not use their skills. **The STEP skills initiative** aims to get better information about the distribution of various skills in the labor force, as well as of the demands for those skills from different economic sectors in order to support the design of skills development policies to improve employability and productivity, making the education system more responsive to the market needs.

AGRICULTURE DEVELOPMENT

Ukraine's has tremendous agricultural potential with a critical role to play in contributing to global food security. However, this potential has not been fully exploited due to an inadequate policy framework that has reduced private investment below levels required to modernize the sector and depressed farm incomes. Examples of ill advised policy measures included repeated grain export restrictions (most recently in 2010-2011, now replaced by export taxes); interventions in domestic food markets to control prices; weaknesses on contract enforcement that have discouraged commodity financing and risk insurance mechanisms; and an incomplete process of land reform.

Establishment of a legal framework for secure land ownership, development of an efficient registration system, and ensuring free and

transparent land markets are important elements of a policy framework to facilitate agricultural development in Ukraine. While privatization of lands of state and communal farms and enterprises through designated parcels has been underway, and state land deeds have been issued since early 2000s, development of the land cadastre is still ongoing, and agricultural land markets are constrained by the moratorium on sale of agricultural land. Combined with poorly-defined ownership rights and poor contract enforcement, this has exacerbated difficulties for small and medium sized farms to access credit and thus contributed to sub-optimal investment levels. The authorities have re-launched land reform and plan to lift the moratorium on land sales in 2012.



The Bank is Ukraine's major development partner in improving rural land administration and management. Through the Rural Land Titling and Cadastre Project (USD 89.7 million) it is supporting the Government in delivering improved services to land-owners through issuance of land deeds and ensuring establishment of an efficient land cadastre system.

In the context of this engagement, the Bank has highlighted the importance of ensuring the basic institutional, legal and regulatory conditions are in place to allow a transparent land market to operate prior to lifting the moratorium. This is not yet the case. The Bank is also supporting a public awareness campaign to inform small land holders of their rights to individual title, as well as their land use rights and obligations.

TRANSPORT

The transport sector is important in Ukraine's economy and hence efficiency improvements are particularly important in raising competitiveness. The country generates far more transport movements and volumes relative to its GDP than any other country in Europe due to its reliance on agriculture and heavy industry. This implies that transport costs make up a much larger part of the final price of many goods. Consequently, the transport system has substantial potential to improve aggregate productivity and regional competitiveness.

Less than 10 percent of freight traffic (in ton kilometers) is by road, while rail and pipelines account almost equally for most freight volume. However, this is changing quickly. Due to steadily increasing commercial and passenger traffic, some strategic sections of the road network are functioning at peak capacities. Substantial portions of the network need upgrade to European technical and safety standards. Ukraine's road safety record remains one of the worst in Europe in terms of road accidents and fatalities.



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

The 450 million Roads and Safety Improvement Project 2 is currently under preparation to finance upgrade of the next consecutive section of the Kyiv-Kharkiv road and improve road safety of selected high-risk corridors.

ENERGY

Restructuring and upgrading its energy sector continues to be one of the key development challenges for the Government of Ukraine.

The sector faces serious challenges in maintaining security, reliability and quality of supply due to delays in energy sector reform, poor financial condition of energy sector enterprises, lack of investments, and deferred maintenance in aging infrastructure. This problem threatens the sustainability of economic growth, degrades the environment and increases the cost of social services. Therefore improvements in the security, reliability and quality of energy supply are among Ukraine's top strategic priorities. Ukraine became a member of the Energy Community Treaty in 2010 and has committed to make its energy policies meet the Treaty's requirements.



The Bank has supported Ukraine in its efforts **to reform and restructure its energy sector** through policy dialogue, technical assistance and financing of adjustment and investment projects since the early 1990s. Energy infrastructure investments under the Hydropower Rehabilitation Project helped increase reliability and reduce the cost of hydropower generation. The project helps increase the installed capacity of the Dnipro Hydropower Cascade by about 400 MW and its production by about 500 GWh which is equivalent to building a major new hydropower plant. During the past five years of project implementation, rehabilitation of 48 hydropower units in four hydroelectric plants was completed and the installed capacity of rehabilitated hydroelectric plants increased by about 108 MW by the end of 2011. The project also pioneered the concept of Carbon Financing in Ukraine as it was the first Joint Implementation Project under the Kyoto Protocol in the country. The projects

in the electricity sector are designed to improve the quality of supply to enable Ukraine to meet Western European standards (ENTSO-E). Improvements to the transmission backbone will facilitate increased electricity trade including with the European Union.

Ukraine is one of the most energy inefficient countries in the region. To address this challenge in a sustainable way the Bank provides financial support through a credit line (the Energy Efficiency Project, USD 200 million, approved by the Board in May 2011). The project provides access to long-term financing to industrial and municipalities enterprises specifically for projects that propose commercially viable energy efficiency investments.

The World Bank is also working with the Government, the European Commission and other IFIs to provide **technical assistance in restructuring of the gas sector** with an objective to facilitate commercial and IFI investments in the modernization of Ukraine's gas transit system and improve sector governance.

MUNICIPAL SERVICES

The municipal and services sector in Ukraine suffers from decades of underinvestment and poor maintenance. The need to invest in water and wastewater utilities is growing dramatically and the existing low tariff levels are a major limitation to the sustainability of utilities. The needs for rehabilitation are exacerbated by the overall high energy consumption in water production and wastewater treatment. It is estimated that the energy use intensity in Ukraine is one of the highest in the region. Improving service delivery through rehabilitation of infrastructure and promotion of energy efficiency solutions offers the possibility of driving utilities towards financial sustainability while providing improved services.

The Bank has been providing significant support through the Urban Infrastructure Project (USD 140 million).



It assists 15 municipal utilities in moving towards higher quality and reliability of services and reducing the costs of service through series of institutional improvements and selected investments in rehabilitation and replacement of deteriorated water supply and wastewater systems. A parallel grant financed by Swedish SIDA helps additional cities develop business plans for improvements in their utilities, as the lack of local management capacity has been a binding constraint on sector modernization.

THE WORLD BANK PROGRAM IN UKRAINE

The World Bank's Country Partnership Strategy (CPS) for Ukraine for 2008-2011, prepared in partnership with the Government of Ukraine and in consultation with the private sector, civil society and donors, was endorsed by the World Bank's Board of Directors in December 2007. The Strategy's two pillars support improving Ukraine's competitiveness, the reform of public finances and administration, and increasing the quality and efficiency of public services.



The CPS was adjusted in the wake of the global economic and financial crisis, and the Bank

together with the IMF, IFC, EBRD and other bilateral donors stepped forward to provide considerably increased volumes of financial assistance and targeted advice in mitigating the effects of the crisis in the financial, fiscal and social policy areas. While the crisis response was broadly successful, Ukraine's long-term development goals slipped and structural reforms in key areas such as pensions, utility tariffs, public finance management and economic governance generally took a step back.

The authorities and the World Bank have begun work on a new CPS for 2012-2015, in support of President Yanukovich's ambitious program of economic and social reforms. The new CPS will

be conscious of implementation difficulties and the resistance of strong vested interests against reforms, as well as the general reform fatigue among the population. Lessons learned from the existing engagement call for upstream political economy diagnostics, capacity building and selectivity to mitigate implementation risks and a strengthened program of activities with non-government stakeholders to build greater consensus for reform and demand for improved governance. The new CPS is expected to be finalized in early 2012.

Since Ukraine joined the World Bank in 1992, Bank commitments to the country total about USD 7 billion for 39 projects and programs.



ONGOING PROJECTS
SOCIAL ASSISTANCE SYSTEM MODERNIZATION PROJECT

Key Dates:

Approved : November 17, 2005

Effective: April 4, 2006

Closing: January 1, 2013

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD | 99.4 | 71.9 | 27.5 |
| Government of Ukraine | 2.38 | 2.38 | 0 |
| Other Donors (SIDA) | 3.85 | 2.9 | 1.7 |
| Total Project Cost | 105.63 | 77.18 | 29.2 |



*Source: World Bank as of September 12, 2011

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

The main challenge facing Ukraine is not to increase the overall Social Safety Net funding but to ensure that the money is used effectively to address the needs of the poor. The move towards better targeted and more efficient social transfers also necessitates administrative improvements to contain costs and reduce delays in dispensing social assistance benefits. Under the Project, support is provided to improve the administration of 756 local social welfare offices (LWOs) to enable delivery of better quality services to vulnerable people in Ukraine.

The Project Development Objective. The Project seeks significant improvement of the effectiveness of Ukraine's social assistance system by better targeting the benefits and reducing the administrative burden on beneficiaries.

The Project addressed a range of interconnected policy and administrative issues in the sector by financing (1) modernization of the network of LWOs to enable delivery of means tested benefits, including new Management Information System; (2) the renovation of 756 LWOs; and (3) capacity building of the Ministry of Labor and Social Policy to develop targeted social assistance programs, with a systemic approach to monitoring program outcomes and policy implementation.

Results achieved:

The Project has contributed to a strategic shift in national social assistance policy and in the way the benefits are delivered to the citizens.

- A new means-testing instrument has been developed to improve overall social assistance targeting; its introduction scheduled for 2012 will help reduce leakage of the social assistance benefits to the non-poor thus increasing the opportunities for the needy to receive income support.
- A new One Stop Shop business model for client intake and benefits administration implemented in almost all LWOs has allowed reducing time for processing benefit application from 4.5 to 1.4 hours. Such efficiency improvements have also allowed staff in LWOs to process more benefits per month (370 up from 260), thus containing the growth of administrative costs of social assistance programs.
- Renovations have been accomplished in 720 offices. This has allowed delivery of benefits and related services in better, more dignified conditions.
- Development of the modern integrated system for benefits data processing is a key input yet to be delivered. Such an ICT system will serve as a backbone for further quality improvements in benefits administration and program management, underpinning further reform efforts. Completion of ICT activities is expected by the Project's closing date in January 1, 2013.

Key Partners: The Bank team works closely with (i) the Ministry of Social Policy; (ii) 27 Main Oblast Departments of social policy; and (iii) 756 local welfare offices.

Key Development Partners includes SIDA who financially contributed to the second project component.

STATE TAX SERVICE MODERNIZATION PROJECT

Key Dates:

Approved: June 5, 2003

Effective: December 31, 2003

Closing: June 29, 2012

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 40.00 | 19.43 | 20.57 |
| Government of Ukraine | 45.56 | | |
| Total Project Cost | 85.56 | | |



***Source: World Bank as of September 12, 2011.**

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

Following the transition to the market economy of the 1990s, the administration of taxes in Ukraine was overwhelmed by inefficiencies, inaccuracies and unevenness. The vast majority of firms (up to 90%) were undergoing tax audit during any given year, filing could not be done electronically until 2001, and information infrastructure was disjointed and outdated. All that caused considerable tax compliance costs. The Government of Ukraine initiated modernization process to improve situation with tax administration.

The Project Development Objective is to help in the modernization of the state revenue system. This includes: (a) improving effectiveness of tax administration, (b) increasing transparency and fairness in revenue collection, and (c) improving voluntary compliance by reducing compliance costs.

The Project addresses a range of interconnected sector issues in particular: (1) improving organization and management by providing technical assistance for modernizing business processes and developing of concept of operations (ConOPS) documents for each of the major management and operational business processes of the STS; building capacity in the areas of HR management, legislative and statistical analysis and stakeholder relations; as well as (2) modernizing operations by financing Contact Center, technology platform development for taxpayer registration, accounting and declaration processing. The project also provides leverage for fundamental reform initiatives such as initiation of risk management and taxpayer segmentation (such as Large Taxpayer Office).

Results achieved:

- The establishment of an automated Call Center that allowed taxpayers to obtain information by phone or email reduced contact with the tax officials improving transparency and compliance. The use of the call center increased from an average of over 10 thousand inquiries per month in 2008 to over 20 thousand in 2009 and over 30 thousand in 2010;
- The introduction of the risk-based audit system (for planned audits), a key element to reduce compliance costs, led to reduced share of firms audited on-site by 9% between 2007 and 2009. The IFC survey results suggest that 42% of firms undergone audit in 2007 and the estimated share for 2009 is 33%, thus reducing inspection burden on the business;
- The implementation of the E-filing resulted in 89% of Value Added Tax and 39% of Enterprise Profit Tax returns submitted electronically in 2010, which would also reduce compliance cost over the medium term;
- The implementation of the Tax Block and Document Management systems would allow the STS to operate on the modern IT platform, centralize its operations and considerably reduce number of tax inspections.

Key Partners:

The Bank team works closely with (i) the **State Tax Administration of Ukraine** which is in charge of project implementation, and (ii) **Ministry of Finance of Ukraine** which was responsible for overall tax policy setting

DEVELOPMENT OF THE STATISTIC SYSTEM FOR MONITORING THE SOCIAL AND ECONOMIC TRANSFORMATION PROJECT

Key Dates:

Approved : March 25, 2004

Effective: June 15, 2005

Initial Closing: December 31, 2009

Revised Closing: December 31, 2012

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 32.00 | 29.5 | 2.5 |
| Government of Ukraine | 5.94 | | |
| Total Project Cost | 37.94 | | |



***Source: World Bank as of September 12, 2011**

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

The Project is one of the first operations approved under the Statistical Capacity Building Program (STATCAP) that envisaged a broad and comprehensive institutional reform of statistical systems in developing countries.

The Project Development Objective is to build a sustainable state statistical system which would efficiently and effectively collect, process and disseminate accurate, timely, coherent and trustworthy statistical data concerning the economy and social conditions of Ukraine required by the Government, business and society to make informed decisions and encompassing a comprehensive reform of the state statistics system of Ukraine.

The Project addressed a range of interconnected sector issues such as modernization of the State Statistical Committee of Ukraine (SSCU); improvement of the statistical policy and the regulatory and institutional framework, including issues such as independence and confidentiality, adequacy of legislation and the dialogue with data users; the development of statistical infrastructure, including such aspects as business registers, sampling frames, classifications, database structures and geographic information systems; and the upgrading and development of statistical operations and procedures, physical infrastructure and equipment.

Results achieved:

The project supported improvements in the statistical system of Ukraine, allowing to achieve full observance score (3.2 out of 4) under the PARIS21/IMF statistical capacity index that evaluates efficiency of a statistical system based on a number of criteria (including access to, timeliness, and accuracy and reliability of data) . Some of the important results achieved are as follows:

- Data collection improvements allowed reducing both reporting and processing burden. For example, the number of processed forms reduced by 70 % after the introduction of the small enterprises sample survey. Time spent on filling in the structural business survey reduced from 9.6 to 8.64 hours.
- As a result of streamlined data collection techniques, response rates in basic enterprise surveys increased from 70 to 83%.
- 35% of surveys are implemented using electronic data collection methods compare with 0% at the beginning of the Project.
- Availability of data for monitoring structural changes in the economy has improved with the introduction of the unified statistical classification system and establishment of the statistical business register.
- Mid-term macro forecasting model has been upgraded to improve the decision making process within the Ministry of Economic Development and Trade.
- These improvements also brought statistical system of Ukraine in full compliance with the international standards.

Key Partners:

The Bank team worked closely with **the State Statistical Committee** as main implementation agency, **the Ministry of Finance, the Ministry of Economic Development and Trade, and the National Bank of Ukraine** that all are beneficiaries of the Project.

SECOND EXPORT DEVELOPMENT PROJECT

Key Dates:

Approved : July 27, 2006

Effective: March 20, 2007

Closing: December 31, 2011

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD/IDA Credit | 304.5 | 131.8 | 172.7 |
| Total Project Cost | 304.5 | | |



*Source: World Bank as of September 12, 2011.

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

The Project Development Objectives are to (i) serve as a catalyst to support export and real sector growth in Ukraine during the EDP2 implementation period (2006-2011) and beyond, by providing medium and long-term working capital and investment finance to Ukrainian private exporting enterprises; and, (ii) further improve the ability of the Ukrainian banking sector to provide financial resources to the enterprise sector, through further development of intermediation, by expanding its depth and breadth through more and better lending products.

The Project addressed some interconnected sector issues by (i) mandating the participating banks to undergo IFRS-based audits as a prerequisite for participation in EDP2, a relative novelty in Ukraine at the time, (ii) developing strategic alternatives for the borrower, Ukreximbank, to transform itself into a full-fledged export credit and guarantee agency.

Results achieved:

1. Up to date, twenty-seven loans have been approved for an amount totaling USD 119.7 million, covering a variety of industries and geographical regions. Nearly all borrowers under the project permanently and substantially expanded their exports volumes.
2. Five banks participated in the project; a few others are in the pipeline of potential participants. In spite of significant lending constraints during the crisis of 2008-2010, direct lending to exporters by Ukraine ensured an uninterrupted flow of export support to the market from the EDP2 credit line.
3. EDP2 credit line has been instrumental in providing long-term foreign currency financing to eligible exporters during the economic and financial crisis and ensuing credit crunch. Of the total amount, over \$40 million were approved and disbursed under the project during FY 2010 alone, during the peak of the crisis - which constituted about half of the overall increase in banking system lending to corporate customers during the same period.

Key Partners:

The Bank team has been working closely with (i) **the Ministry of Finance** as a guarantor to the World Bank on behalf of Ukraine; (ii) **Ukreximbank, state-owned bank**, which serves as the borrower and the main implementation agency under the Project, and other **Participating Banks** (Nadra Bank, Krediprombank, Ukrgasbank, Megabank, Credit Dnipro Bank), and (iii) **the Ministry of Economic Development and Trade** as a key coordinator of World Bank projects in Ukraine and a key state policymaking institution which oversees economic and export development in Ukraine.

Key Development Partners include EBRD and IFC with which the Bank Team coordinates closely in order to provide consistency and complementarities of approach.

PUBLIC FINANCE MODERNIZATION PROJECT

Key Dates:

Approved : January 8, 2008
Effective: October 23, 2008
Closing: June 30, 2013



Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 50.00 | 2.1 | 47.9 |
| Government of Ukraine | 15.00 | | |
| Total Project Cost | 65.00 | | |

* Source: World Bank as of September 12, 2011.

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

The Project Development Objective is to strengthen public financial management in terms of operational efficiency and transparency. This would include elaborating the medium-term budget framework (MTBF); improved access of decision makers to budget data through the use of an integrated management and information platform with a 20% reduction in the time required to get information necessary for managerial decisions; and improved quality and timeliness of reporting on budget execution.

The Project aims to achieve its objectives through strengthening the institutional capacity of the Ministry of Finance (MoF), State Treasury of Ukraine (STU) and Main Control-Revision Office (KRU) for implementing PFM reform actions; developing new PFM methodologies and procedures; and providing a sustainable PFM solution that allows an integrated, modern, web-based system that comprehensively covers all stages of the budget process, to facilitate reliable and timely exchange of information necessary for transparency, efficient decision making, and financial control. Creation of such system would be completed by 2013 with the support from the World Bank and other donors.

Results achieved:

- The project has experienced delay during the initial phase of implementation as reflected in the small amounts disbursed to date. Nonetheless, some qualitative improvements in the PFM system have been achieved since project approval. Budget Functional classification is compliant with the Government Finance Statistics 2001 resulting in better informed policy-making and improved international comparability;
 - Proposed budgets now are published in the same detail as executed budgets, as opposed to just summary of proposed and executed budgets before, leading to improved transparency of the budget process;
 - The MTBF for 2010-2012 was elaborated and approved, and the 2011 Budget law was approved consistent with the MTBF enabling use of the budget as a policy instrument;
 - Four International Public Sector Accounting Standards (IPSAS) compliant accounting standards were revised and approved by the MoF and STU as part of the implementation of the Accounting Reform Program (aimed at transition to accrual based accounting compliant with IPSAS until 2015) that allows to produce financial statements that are understandable and comparable across countries.
- The procurement of PFMS information and communications technology (ICT) solutions was initiated in 2010 and the two large ICT contracts are expected to be signed in 2011.

Key Partners:

The **Ministry of Finance of Ukraine; State Treasury of Ukraine, and Main Control-Revision Office (KRU).**

Key Development Partners included the European Union, the Netherlands Ministry of Finance, USAID, US Treasury, French Treasury, SIDA, CIDA, GTZ, DFID, UNDP and IMF.

POWER TRANSMISSION PROJECT

Key Dates:

Approved : August 2, 2007

Effective: December 5, 2008

Closing: June 30, 2012

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 200.0 | 13.9 | 186.1 |
| Borrower | 38.0 | | |
| Total Project Cost | 238.0 | | |

***Source: World Bank as of September 12, 2011.**

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



The Project Development Objective is to improve the security, reliability, efficiency and quality of power supply through the rehabilitation of transmission substations and the strengthening of the power transmission network. The project targets improved services to consumers through reduction in transmission losses and improved voltage quality in transmission substations. The project also aims to improve institutional capacity and technical capabilities of the transmission system operator, UkrEnergo (UE), so that it can assure secure and reliable operation of the high voltage power grid, and, therefore, provide improved quality of services to consumers.

The Project addresses a range of interconnected sector issues by (1) rehabilitation of transmission substations, which includes replacement of outdated high voltage equipment and installation of modern protective relaying and substation automation systems; (2) strengthening of the transmission network, which includes expansion of the existing 330 kV Bar substation and construction of the 77 km long 330 kV transmission line; (3) stabilization of the Crimea Electric Power Grid; (4) institutional development for UE, which includes establishment of a corporate-wide Management Information System (MIS) in UE; and (4) implementation of the Grid Code.

Results achieved:

The project has had a slow start up and there are no tangible results produced to date. However, the key expected results are: (i) reduction of energy amount not served to consumers by 35 GWh per year (this is a measure of the amount of energy demanded by consumers but not available because of overload in the system at peak hours); (ii) reduction in transmission losses by 14 MW (a measure of power supplied but lost in transmission because of outdated equipment); and voltage quality improvement in transmission substations (important for the reliability and stability of the power transmission system).

Key Partners:

The Bank team worked closely with (a) the **Ministry of Energy and Coal Industry** which was responsible for overall policy setting; (b) **UkrEnergo** (UE), the ultimate beneficiary of the Loan, and implementing agency of the Project in the rehabilitation of the transmission system; (c) the **National Energy Regulatory Commission** (NERC), the independent power sector regulator, charged with implementation of the new Wholesale Electricity Market Model; and (d) **the Energy Program Coordination Unit** (EPCU), responsible for implementation of the Energy Sector Reform and Development Program at the Ministry of Energy and Coal Industry

Key Development Partners included the European Bank for Reconstruction and Development and the European Investment Bank, who are also working with UE on transmission projects, and the European Commission, with whom the Bank Team coordinated closely on policy issues.

ROAD AND SAFETY IMPROVEMENT PROJECT

Key Dates:

Approved : April 7, 2009

Effective: September 3, 2009

Closing: December 31, 2012

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Cancelled</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|------------------|--------------------|
| WB Loan | 400.0 | 87.0 | 0 | 313.0 |
| Total Project Cost | 400.0 | | | |



***Source: World Bank as of September 12, 2011.**

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

As Ukraine moves to gain market share in Europe and other developed markets, especially for high-value added products, some transport will inevitably shift from rail towards road. At present, the modal split of freight transport remains typical of a Soviet era economy—road transport contributes relatively little. Official statistics show that less than 10% of freight traffic (in ton kilometers) is by road, but this is changing quickly, leading to capacity constraints on parts of the road network. According to 2005 data about 13% of the state network was in poor or very poor condition requiring urgent investments, and about 26% of the state network was in fair condition, still needing to be upgraded to European technical and safety standards.

Road Safety is a serious issue in Ukraine. Ukraine has one of the worst records in the Europe and Central Asia Region in terms of road accidents and fatalities.

The Project Development Objective is to improve the condition and quality of sections of the section between Boryspil and Lubny of the M-03 road, and increase traffic safety on roads.

The Project addresses the development objective mostly through (1) the upgrading of the 126 km Boryspil-Lubny section of the Kiev-Kharkiv road and (ii) the elimination of about 40 “accident black spots” through a variety of measures.

Results achieved:

Three large road rehabilitation contracts totaling about US\$ 235 million (after the application of price adjustments) are under execution and will most likely be completed before the contractual completion dates set in late 2012. Two contracts for road safety interventions have been awarded also and three more are about to be awarded, totaling about US\$ 26 million.

The road upgrading works funded from the World Bank loan will significantly improve the riding quality on the M-03 road between Boryspil and Lubny. Elimination of the black spots will contribute to improving road safety on roads across Ukraine towards EU levels and is expected to result in decreasing fatalities in road accidents from eight to six victims per 10,000 vehicles during the life of the project.

The technical assistance to the state road agency UKRAVTODOR focuses on the introduction of performance-based road maintenance contracts in Ukraine. Such contracts should help UKRAVTODOR to modernize management and maintenance of the road network under its responsibility. It is expected to lead to establishing more efficient management of roads in Ukraine.

Key Partners:

The World Bank team is working closely with **UKRAVTODOR**, the Government’s road agency in charge of managing and maintaining the main road network.

Key Development Partners include EBRD which is planning to fund the performance-based road contracts that are being prepared with funding from the World Bank loan for this project.

HYDROPOWER REHABILITATION PROJECT

Key Dates:

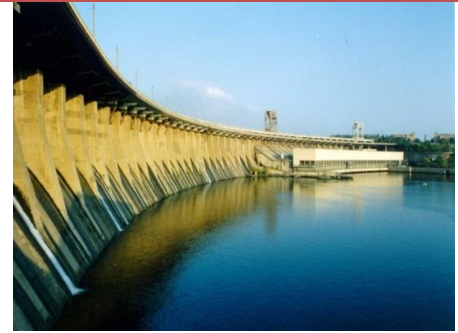
Approved : June 21, 2005

Effective: February 03, 2006

Closing: June 30, 2012

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 160.0 | 47.0 | 119.0 |
| Borrower | 274.5 | | |
| Total Project Cost | 440.5 | | |



***Source:** World Bank as of September 12, 2011

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

From 2007 to 2011 Ukraine increased hydropower production from 5.2% to 6.9% in total energy mix and producing 13 TWh (out of 188 TWh of total power produced). These investments enabled the power system to keep its supply costs low as rehabilitation of hydropower assets was a low-costs supply option.

The Project Development Objective is to improve operational stability and reliability of power supply by increasing regulating capacity, efficiency and safety of hydroelectric plants, and therefore, facilitate unimpeded operation and opening up of the electricity market in Ukraine.

The Project addresses a range of interconnected sector issues by (1) rehabilitation of hydroelectric plants through refurbishment of 52 hydroelectric units and associated plant equipment at nine hydroelectric plants; (2) rehabilitation and upgrade of the existing, as well as installation of new dam safety monitoring systems and rehabilitation of drainage facilities and spillway gates on six dams on the Dnipro River and one dam on the Dnister River; (3) institutional development of UkrHydroEnergo (UHE) through establishment of a corporate-wide Management Information System (MIS); (4) implementation of the Energy Sector Reform and Development Program; and (5) implementation of the new WEM Concept.

Results achieved:

Up to date rehabilitation of 27 hydropower units in four hydroelectric plants has been completed under the project and the installed capacity of rehabilitated hydroelectric plants increased by about 108 MW by the March 2011. Energy generated by Ukraine hydropower stations is the cheapest source of electricity (22.43 kop. per kWh compared with more than 100kop per kWh generated by wind power).

The project also pioneered the concept of Carbon Financing in Ukraine as it was the first Joint Implementation Project under the Kyoto Protocol in the country.

Studies are contributing to improving the legal framework in energy sector. NERC has successfully completed work on the new Wholesale Electricity Market (WEM) model and has started to gradually implement the new WEM model which will bring many benefits such as: new investments and security of supply, real competition, possibility for demand side participation, investments in own generation, better utilization of generation and transmission capacities.

Key Partners:

The Bank team worked closely with (a) the **Ministry of Energy and Coal** which was responsible for overall policy setting; (b) **UkrHydroEnergo**, the ultimate beneficiary of the Loan, and implementing agency of the Project; (c) the **National Energy Regulatory Commission**, charged with implementation of the new Wholesale Electricity Market Model; and (d) **the Energy Program Coordination Unit**, responsible for implementation of the Energy Sector Reform and Development Program at the Ministry of Energy and Coal Industry.

Key Development Partners include the EBRD and the EIB, who are also working with UHE on rehabilitation of hydropower stations, and the European Commission, with whom the Bank Team has coordinated closely on policy issues.

RURAL LAND TITLING AND CADASTRE PROJECT

Key Dates:

Approved : June 24, 2003

Effective: July 30, 2004

Closing: June 30, 2012

Financing in million US Dollars*: original 195.13; revised 89.68

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD Loan | 89.7 | 44.9 | 44.8 |
| Recipient | 3.6 | | |
| Total Project Cost | 93.3 | | |



***Source Client Connection as of September 12, 2011**

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

The Project Development Objective is to assist Ukraine in: (i) privatization of the lands of state and communal farm enterprises, agencies and organizations through transfer to the employees of these enterprises, agencies and organizations as well as retirees from among them, designating for each of them a land parcel (share); (ii) allocating land parcels to owners of land parcels (shares) in kind (on site) and issuing state land deeds to them; and (iii) establishing a land cadastre. Project funds were cancelled in 2006, and again in 2008 and 2010, because (a) much of the land titling work was funded by the owners and Loan funds were not required; (b) the agency originally envisaged as responsible for establishing a unified (urban and rural) cadastre and title registry system that included land and buildings was unable to do so because of legal and institutional obstacles; and (c) a farm restructuring component was cancelled because farm restructuring was largely completed without project intervention. The revised project enables a cadastre, with an associated record of all land rights, to be established, but does not support the establishment of a unified registry.

Results achieved:

- Of the 6.9 million land shares to be issued: 98.5% of land share certificates have been issued; 95.8% have state land deeds drawn up; 91.6% have been issued to owners; and 49.2% of the state land titles have been included into an automated cadastre system. Most of this work has been paid for by the owners.
- The project has put in place a number of elements for delivering improved services to land owners through improved land management and administration: 692 departments of the SCLR have been outfitted with the necessary equipment for managing land resources and 1,949 SCLR employees have raised their professional qualifications by attending courses on contemporary management practices, land resource usage, and project management.
- Nine universities have ongoing courses in land administration and land management after having received modern surveying and cadastre equipment; and training 416 university professors and lecturers have been trained in modern land management to further deliver knowledge to a new generation of field specialist;
- Instances of doubt and dispute over property locations are reduced because (so far) aerial surveys have been completed for 440,000 km² (out of 600,000 km²): orthophotomaps for 364,200 km² (out of 600,000 km²); and index cadastre maps have been completed for 3 oblasts and large parts of 19 others (out of 25). Local offices now have the resources to provide quicker and more accurate answers to queries about land rights or overlapping claims.

Key Partners:

The Bank team works closely with the **State Committee for Land Resources (SCLR)**, the main implementing agency and the government authority responsible for land issues.

Key Development Partners include (a) SIDA who provided training in surveying and mapping at selected institutes and universities and capacity building for the implementation of a national data infrastructure from 2000-2003; and (b) USAID who supported a land titling project covering 1.8 million land parcels and an enterprise land privatization/sales project.

URBAN INFRASTRUCTURE PROJECT

Key Dates:

Approved : August 28, 2007
Effective: November 10, 2008
Closing: December,31/2012

Financing in million US Dollars*:

| <i>Financier</i> | <i>Financing</i> | <i>Disbursed</i> | <i>Undisbursed</i> |
|---------------------------|------------------|------------------|--------------------|
| IBRD | 140.000 | 20.5 | 119.5 |
| Total Project Cost | 140.000 | | |



***Source World Bank as of September 12, 2011**

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

The Project Development Objective is to assist participating utilities in moving towards higher quality and reliability of services and reducing the costs of service through a series of institutional improvements and selective investments in rehabilitation and replacement of deteriorated water supply, and wastewater systems.

The Project addresses (i) institutional strengthening for utilities to adopt commercially-oriented business-type practices and work towards financial viability through preparation of Business plans; (ii) rehabilitation investments in water and wastewater in Odessa, Ivano-Frankivsk and Chernihiv; and (iii) financing urgent energy efficiency investments in water and sanitation utilities in fifteen municipalities.

Results achieved:

The project has started implementation slowly as investment designs turned out to be incomplete, a reflection of low capacity in many municipalities and utilities. These constraints are now being addressed with potential positive demonstration effects for other municipalities.

Progress Towards Project Development Objectives:

The current set of indicators is being formally revised as part of a restructuring paper under preparation. So far there is progress in the following activities that are expected to contribute to the achievement of the PDO:

- (i) Preparation and implementation of water and wastewater infrastructure rehabilitation investments are underway in Odessa, Ivano-Frankivsk and Chernihiv. It is expected that once completed these investments will reduce operational costs, increase energy efficiency, and in the case of Odessa and Ivano-Frankivsk improve the quality of the wastewater discharges.
- (ii) Preparation of energy efficiency investments are underway in fifteen utilities. It is expected that these investments will reduce by 15% the total energy consumption of participating utilities. Contracts have already been signed by six of them.
- (iii) Business plans have been developed by all participating utilities, which are adopting this practice to improve their strategic planning, improving their decision making practices and ultimately are expected to have a positive impact on the financial situation of participating utilities.
- (iv) The project has financed capacity building activities to improve the procurement practices and the financial management of participating utilities and of the Ministry for Regional Development, Construction, Housing and Communal Services.

Key Partners: (i) the **Ministry for Regional Development, Construction, Housing and Communal Services** responsible for overall policy setting as well as for project implementation; (ii) Municipal Authorities of Odessa, Ivano-Frankivsk and Chirnihiv which have regional Project Implementation Units; and (iii) 15 municipal utilities in participating cities.

Key Development Partner is Swedish **SIDA**, which finances grant in amount of 35, 844, 217 SEK in support of institutional strengthening and energy efficiency under the Urban Infrastructure Project.

ENERGY EFFICIENCY PROJECT

Key Dates:

Approved: May 17, 2011

Financing in million US Dollars:

| <i>Financier</i> | <i>Financing</i> |
|---------------------------|------------------|
| IBRD Loan | 200 |
| Total Project Cost | 200 |



Ukraine is among the most energy intensive economies in the world. For example, in the heating of buildings energy consumption is estimated to be roughly 3-5 times that of western Europe. Ukraine is facing difficulties in making timely payments for energy - particularly natural gas. The problem stems from a long-standing low price of natural gas that has increased considerably in the recent past due to increases in energy prices. This has been exacerbated by change in attitude by Gazprom to its pricing strategy to Ukraine - moving from their former "near-abroad" pricing levels to one that is more consistent with the pricing applied to western Europe. This considerable price increase has broad-ranging implications on energy use, structural reforms (some energy intensive industries may lose their competitive edge, jeopardizing their financial viability) to attitudes to energy use. The GOU has made it a strategic priority to reduce Ukraine's energy intensity. The industrial sector, particularly heavy industry, is expected to be the primary source of energy savings if they had the opportunity to upgrade their production technologies. In the steel sector, for example, this could reduce energy consumption per unit of output by more than four-fold. Other sectors such as the chemical, agricultural and food production sectors are equally estimated to have significant energy savings potential. Furthermore, the heating needs of Ukraine are also expected to be a considerable source of energy savings at the municipal level. Financing for these types of industrial and municipal energy efficiency projects has been constrained by the financial crisis which brought lending to a virtual standstill.

The Project Development Objective is to contribute to improved energy efficiency by industrial and commercial companies, municipalities, municipally-owned enterprises and energy service companies by facilitating sustainable financial intermediation for the financing of energy efficiency investments. The project is a Financial Intermediary Loan to UkrEximBank which has a successful track record of lending to industrial companies for energy efficiency projects. In addition, UkrEximBank will onlend the funds to Participating Banks (PB) to create a financial market for energy efficiency projects. The Project will also help develop energy efficiency projects in the municipal sector by identifying and financing bankable pilot projects.

The proposed Project has one component: financing of energy efficiency investment in the industrial and municipal sector. The Ministry of Regional Development and Housing will benefit from capacity building measures to prepare municipal energy efficiency projects under a Clean Technology Fund grant.

Expected Results:

The proposed Project is expected to reduce energy consumption by industrial end-users and municipalities as well as increase lending for energy efficiency projects.

Key Partners: (i) **UkrEximBank**, the Executing Agency for the credit line as a financial intermediary, and implementer of the proposed Project; (ii) **State Agency of Ukraine for Efficient Use of Energy Resources (SAER)** that is responsible for developing energy efficiency policies in Ukraine and overseeing their implementation and (iii) **commercial banks** who could become PBs under the Project.

Key Development Partners:

The World Bank team has been closely coordinating with IFC, EBRD, USAID, EC and private sector representatives on policy issues and ongoing TA activities related to energy efficiency, in particular at the municipal level.

