Supporting Ukraine’s Development and Prosperity

Preparing for World Bank Group-Ukraine
2022-2026 COUNTRY PARTNERSHIP FRAMEWORK

NOVEMBER 2021
Where does Ukraine stand today?

It will take 55 years for per capita incomes to catch up to current per capita income in Poland.

Why? Foundations for productivity and investment are weak.

Physical investment rates lower than sub-Saharan Africa average.

Human capital investment is inefficient.

GDP per capita (US$, 2020)

Notes: The years to converge to Poland GDP per capita assumes per capita growth rates for Ukraine of about 3 percent year, and low underlying investment and TFP growth rates of 15% and 1% respectively.


Capital is tied up in NPLs or stagnant, low productivity SOEs.

Private investment deterred by corruption, rule of law, contract enforcement.

3 years of schooling is ineffective.

Life expectancy 10 years < ECA countries.
Internal: Low investment/growth despite reforms

- Inflation targeting and banking supervision/consolidation
- Anti-corruption
- Energy tariffs
- Unbundling of Naftogaz
- VAT
- Health
- Energy tariffs
- Land
- Corporate Governance in SOEs and SOBs
- Prozorro
- Decentralization

Major structural reforms enacted in recent years

But ... reform agenda unfinished and slow
And Ukraine's institutions much weaker compared to peers

Government Effectiveness

- 2009
- 2014
- 2019
- Ukraine
- ECA Average
- Poland

Government effectiveness index measures the quality of public services, civil service, policy formulation, policy implementation and credibility of the government's commitment to improving these
External: Emerging challenges, also opportunities

**Climate Change**

Major growth, productivity and livelihood impacts expected, including in key sectors (agriculture, transport, water);

Transition may be disruptive given high carbon intensive economy.

**Technological Innovation/transformation**

Puts at risk low-skilled, older workers, process further accelerated by COVID-19

**Deepening economic ties with EU**

Likely accelerate decline of old industrial heartlands towards East, as more modern economic sectors emerge in west and center of country

Source: World Bank Systematic Country Diagnostic 2021
Preparing Country Partnership Framework (CPF) 2022-2026

1. Informed by Systematic Country Diagnostic (SCD) - analytical diagnostic of World Bank Group
   - Independent view of technical staff, based on analysis of data and existing studies

2. Identifies major pillars along which World Bank Group agrees with Government of Ukraine to provide assistance – financial, technical and analytical

3. A selective and flexible program, decided between the World Bank Group and Ukraine’s government based on
   - Diagnostics of the SCD (critical reforms/investment needed for Ukraine’s growth and poverty reduction)
   - World Bank Group’s specific expertise (comparative advantage)
   - Government’s own priorities

Critical reforms/investment needed for growth and poverty reduction
Ukraine government priorities
World Bank Group expertise
CPF
Critical Areas of Reform and Investment

Critical reforms/ Investment needed for growth and poverty reduction

Private sector productivity and investment for green and inclusive growth

Social resilience: Investing in people

Macro-financial Resilience

Fiscal policy
- Fiscal resilience, tax reform, bank and non-bank supervision, inflation targeting, NPL resolution, deepening capital markets

“Green” reforms and public and private investments in land, agriculture, energy, railways, roads, logistics and digital connectivity

Anti-corruption reforms, judicial reforms, public sector accountability and transparency, SOE reform, digital government

Stronger social safety net, education and skills, improved public health and hospital reform, rehabilitate infrastructure, improve water/sanitation access

Stronger Institutions, Rule of Law, Reduced Footprint of State

Source: World Bank Systematic Country Diagnostic 2021
Design of World Bank Group Program

**IBRD Instruments**

**Helping Support Critical Reforms**
- Development Policy Loans: **DPO**
  - Budget Support, Backed by Analytical and Technical Support
- Can unlock additional financing from market/private sector/bilaterals/multilaterals

**Financing Core Investment Needs**
- Investment Project Financing: **IPF**
  - Financing for Critical Government Investment (physical capital and human capital)
- Can be co-financed by other external partners (e.g., EIB)

**Sustaining Sector Reforms and Building Capacity**
- IPFs as well as Programs for Results: **PforR**
  - Long-term Support to Reforms and linked Investment
- May be Combined with other Technical Assistance from World Bank Group or bilaterals/multilaterals

**IFC Support: Examples**
- Helping Support Critical Reforms
  - Pre-Privatization Instruments; Debt Capital Market Strengthening; NPL Resolution; Irrigation
- Financing Core Investment Needs
  - Promoting FDI via Upstream Projects and via the Concession Model
- Sustaining Sector Reforms and Building Capacity
  - Building Ministerial Capacity to Implement Concession Agreements

**Size of program will depend on:**

**High Case**
- Macro-fiscal stability
- Good reform progress
- Well-disbursing portfolio

**Base Case**
- Macro-fiscal concerns
- Slow reforms
- Portfolio problems
Next Steps

Consultations on the Country Partnership Framework (CPF)

- **Completion of SCD**: September 2021
- **CPF Consultations**: October 2021 - January 2022
- **Launch of Country Partnership Framework consultations**: September 2021
- **CPF First Draft**: February-March 2022
- **CPF (2022-26) Launch**: June 2022

*Source: World Bank Group*