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DEVELOPMENT FINANCE ASSESSMENT: **UKRAINE**

ANALYTICAL REPORT





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Reservation

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TABLE OF CONTENT

Abbreviations.....	5
Chapter 1.	
Introduction	7
Chapter 2.	
Economy of Ukraine	9
Chapter 3.	
Strategic Planning.....	14
3.1. Strategic Documents.....	14
3.2. Place of the SDGs in Strategic Planning	15
3.3. Monitoring of Progress of the SDGs.....	17
Chapter 4.	
State Budget.....	19
4.1. Budget Planning.....	19
4.2. Budget Revenues	21
4.3. Budget Expenditures	28
4.3.1. Expenditures of the Consolidated Budget of Ukraine	28
4.3.2. State Fund for Regional Development	32
4.3.3. Public Investment Projects.....	35
4.4. Public-Sector and Local Debt	38
4.4.1. Public Loans.....	38
4.4.2. Local Borrowing	40
4.5. Budget Monitoring and Fiscal Transparency.....	42
Chapter 5.	
International Official Assistance.....	44
5.1. Official Flows of the International Official Assistance	44
5.2. Implementation of the Projects with Financial Support by the IFIs.....	45
5.2.1. IFI Loans and Development Finance	45
5.2.2. Social and Economic Development Projects in Terms of Financing by the Main IFIs.....	49
5.2.3. Projects Being Prepared and Initiated	53
5.2.4. Assessment of Project Division by the SDGs	55
5.2.5. Private Sector Projects.....	57
5.3. International Technical Assistance.....	58

Chapter 6.	
Financial System.....	69
Chapter 7.	
Investment by State Enterprises	74
Chapter 8.	
Private Investment.....	78
8.1. National Investment Policy.....	78
8.2. Capital Investment in Ukraine	79
8.3. Private Investment by the Sustainable Development Goals	82
8.4. Financing of the SDGs by Private Enterprises beyond the Investment Projects	83
Chapter 9.	
Tools to Facilitate Private Sector Investment.....	85
9.1. Public-Private Partnership	85
9.2. Industrial Parks	88
9.3. Business Development Fund.....	89
9.4. Startup Fund.....	90
9.5. Major Investment Project Support: “Investment Nannies”	91
Chapter 10.	
Conclusions and Recommendations	92
10.1. General Conclusions and Recommendations.....	92
10.2. Conclusions and Recommendations: Strategic Planning	99
10.3. Conclusions and Recommendations: State and Local Budgets.....	99
10.4. Conclusions and Recommendations: International Financing	101
10.5. Conclusions and Recommendations: Financial System.....	102
10.6. Conclusions and Recommendations: State Enterprises	103
10.7. Conclusions and Recommendations: Private Investment	104
10.8. Recommendations: Enhancing the Institutional Capacity and Communication	105
Annex	106
11.1. Map of Stakeholders in Public / Private and Internal / External Terms of Development Finance.....	106
11.2. Current Progress in Achievement of the Sustainable Development Goals.....	107
11.3. Tax Administration and Allocation of Budget Revenues among the Budget Levels.....	110
11.4. Financing Projects from the SFRD	113
11.5. Procedure for Submission, Consideration and Selection of the Project to Finance the SIP	115



ABBREVIATIONS

BCU	Budget Code of Ukraine
GDP	Gross domestic product
GVA	Gross value added
GFCF	Gross fixed capital formation
VRU	Verkhovna Rada of Ukraine
PBO	Principal budget owners
SASU	State Audit Service of Ukraine
PEFA	Public Expenditure and Financial Accountability
Statistics Service	State Statistics Service of Ukraine
STSU	State Treasury Service of Ukraine
SE	State enterprise
PPP	Public-private partnership
SFRD	State Fund for Regional Development
SI	State institution
EBA	European Business Association
EBRD	European Bank for Reconstruction and Development
UNECE	United Nations Economic Commission for Europe
EIB	European Investment Bank
EU	European Union
EAEC	European Atomic Energy Community
UST	Unified social tax
HCF	Health care institutions
INFF	Integrated National Financing Framework
IP	Industrial parks
CIS	Collective investment scheme(s)
CMU	Cabinet of Ministers of Ukraine
MNE	Municipal non-profit enterprise
ME	Municipal enterprise



CSR	Corporate social responsibility
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
Ministry of Economy	Ministry of Economy of Ukraine
Ministry of Regions	Ministry for Communities and Territories Development of Ukraine
Ministry of Finance	Ministry of Finance of Ukraine
ITA	International technical assistance
IFC	International Finance Corporation
IFI	International financial institutions
NBU	National Bank of Ukraine
NES	National Economic Strategy
NSSMC	National Securities and Stock Market Commission of Ukraine
DGLB	Domestic government loan bonds
RSA	Regional State Administration
FGLB	Foreign government loan bonds
LSGA	Local self-government authorities
UN	United Nations
DFA	Development Finance Assessment
VAT	Value added tax
IIT	Individual income tax
DFI	Direct foreign investment
CIT	Corporate income tax
UNDP	United Nations Development Programme
PFTS	First Stock Trade System (Stock Exchange)
ACU	Accounting Chamber of Ukraine
RF	Russian Federation
SCMU	Secretariat of the Cabinet of Ministers of Ukraine
WTO	World Trade Organization
PFMS	Public Financial Management System
USA	United States of America
IE	Individual entrepreneur
BDF	Business Development Fund
SDGs	Sustainable Development Goals
SNP	Share of net profit
USAID	United States Agency for International Development



Chapter 1.

INTRODUCTION

The Agenda 2030 for Sustainable Development adopted by the United Nations (UN) in 2015 set the integrated and ambitious vision of global development. It provides for achievement of the clear seventeen sustainable development goals with specific tasks as well as the list of indicators of how the world countries succeed in implementation of the Sustainable Development Agenda. At the same time, achievement of the sustainable development goals by 2030 (SDGs 2030) takes material and sustainable financing by governments, international organisations and private businesses. Given the limited development finance capacity, the available funds should be concentrated on the areas that will mostly facilitate implementation of SDGs 2030 in all dimensions: social, humanitarian, security, economic and climate ones. It requires revising the national policy for setting the priorities during the strategic and budget planning, increasing performance of interaction between the private and public sectors, and enhancing cooperation between the governments and international financial institutions.

The need to achieve the SDGs 2030 facilitated occurrence of the integral national development strategies, which, however, were not always based on the adequate financial plans. In 2019, the UN professionals suggested that the national government should introduce the special tool to support implementation of the national development strategies, namely the Integrated National Financing Framework (INFF), in order to create the efficient framework for implementation of the sustainable development goals.¹ The actual purpose of

this tool is to facilitate formation of the common idea of national development priorities and tasks and to ensure financing thereof with account of the country's current development, challenges and obstacles and opportunities by coordination efforts to achieve the sustainable development goals by all the stakeholders. Moreover, at the stage of establishment of operation of the INFF, it might be necessary to change the economic policy, the labour market policy and the policy for social protection, regulation of the financial sector, the trade policy etc. Such changes are necessary to make it possible to achieve the goals set with account of the development finance limitations.

The UNDP experts have developed several tools for efficient implementation of the INFF, including the Development Finance Assessment (DFA).² The assessment aims at finding the opportunities to improve performance of the available development finance and to mobilise additional financing. Moreover, the assessment is effected based on the sustainable development goals in order to clearly see which financing sources are most important for implementation of the respective goals and national policy priorities accordingly. The available development finance and areas of use thereof need to be understood to develop the policy actions both at the national and local levels, and implementation thereof will facilitate an increase in such financing.

The work group responsible for implementation of the INFF was established in Ukraine in spring 2021 with the UNDP support. The development finance assessment project was

¹ UN Financing for Sustainable Development Report 2019, <https://developmentfinance.un.org/fsdr2019>

² DFA – Development Finance Assessment.



implemented in May to December 2021 for Ukraine and two regions, Donetsk and Kherson Regions; the project was implemented by the Institute for Economic Research and Policy Consulting (Kyiv). The importance of drafting separate DFA reports for the regions is explained with the decentralisation reform as well as different development level and different challenges and tasks faced by the regions. The assessment is mostly associated with the period from 2016 to 2020.

The report presents the findings of the Development Finance Assessment for Ukraine. The report starts with description of the national economy. It is followed by the overview of strategic planning in the country. The following sections are dedicated to the major development finance sources in terms of private/public and internal/external funds (see Annex 12.1).

Section 2 contains the brief description of the Ukrainian economy and approaches to strategic planning as well as the place of the SDGs there. The Development Finance Assessment starts with analysis of the budget revenues and expenditures since the government has most impact upon this development finance component: after it sets the respective priorities, the government can finance implementation thereof. Another important development finance source is the funds received from the international financial institutions, which are specified in Section 5. The national financial system gives access to capital for private and state companies, which now face the lack of liquidity to finance important projects (Sections 7 and 8). The last section of the Report presents the conclusions and recommendations directed at increasing development finance from all the sources.



Chapter 2.

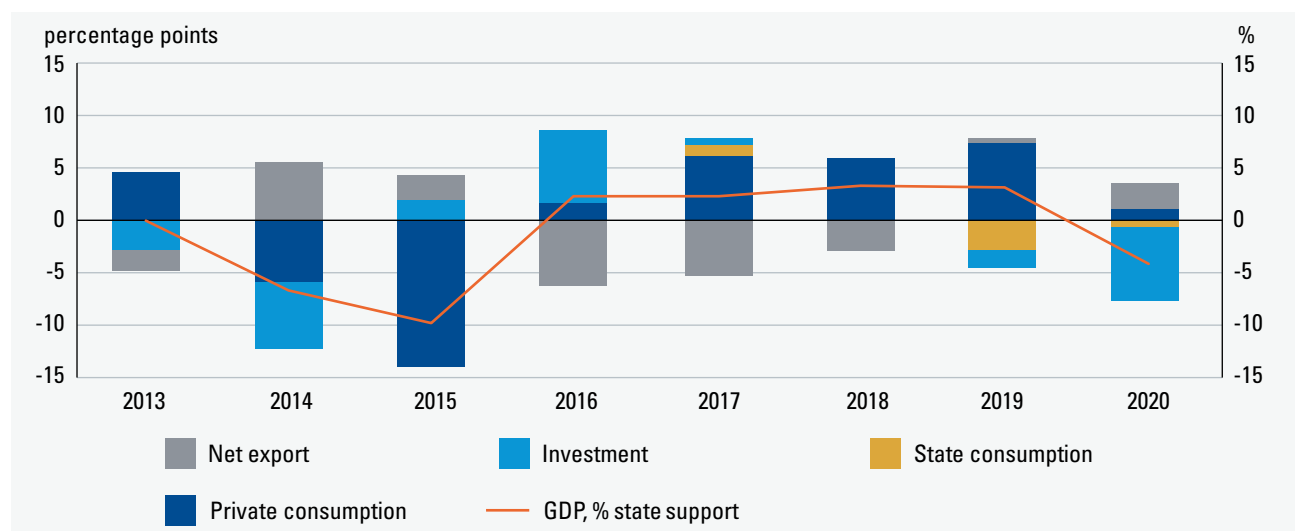
ECONOMY OF UKRAINE

In 2014 and 2015, the real GDP of Ukraine went down by 6.6% and 9.8% accordingly, mostly due to the annexation of Crimea by the Russian Federation and loss of the part of Donbas due to the Russian armed aggression. As a result, Ukraine lost a number of export capacities and faced disruption of the traditional supply chains. There was rapid devaluation of the Ukrainian hryvnias and considerable growth of inflation during that period (the consumer price index grew by 79% in two years), and the country faced the large-scale banking crisis. At the same time, those years were also the beginning of implementation of the important reforms, namely as to transparency and performance of budget funds, independence of the National Bank of Ukraine, introduction of inflation targeting, and development of the anti-corruption system. The government also took a number of actions for fiscal consolidation. During those

years, Ukraine was granted considerable financial support by the international financial institutions (IFIs), namely the International Monetary Fund (IMF) and the World Bank as well as the EU and the USA and a number of other countries.

In 2016, the Ukrainian economy started to recover: its real GDP went up by 2.4% owing to the reforms, favourable foreign market environment and support by the international partners. The average annual growth of the economy in 2016-2019 made only 2.9%, which did not enable compensating for the economic decline during the previous years. The driver of growth of the real GDP in 2016-2019 was the domestic demand: ultimate private consumption and gross fixed capital formation (GFCF) grew whereas the contribution of the net real export into the economic growth was negative (Figure 1).

Figure 1: Contributions into growth of the real GDP and GDP growth dynamics



Note: P – preliminary data

Source: Statistics Service

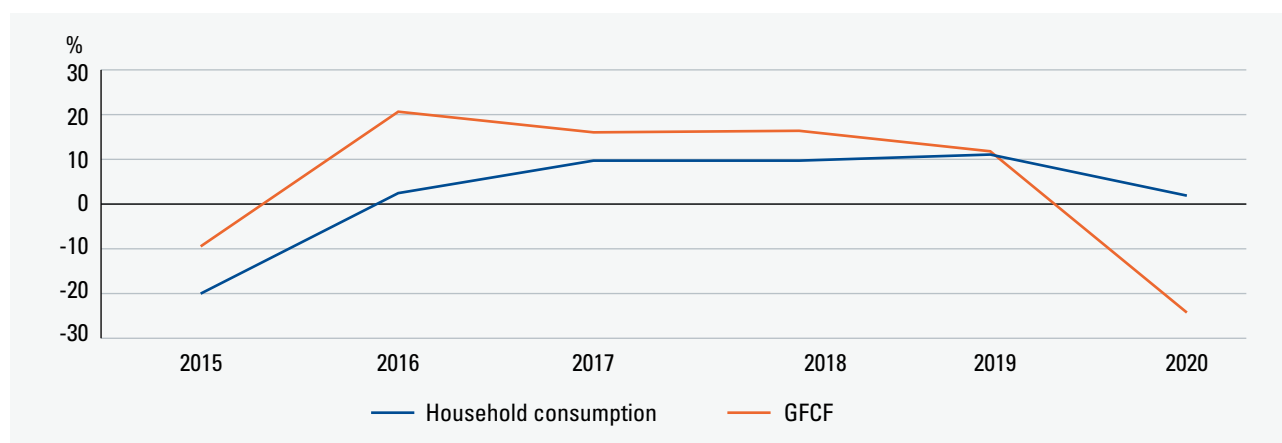


During that period, Ukraine introduced a number of important reforms that facilitated higher resilience of the economy. The banking system was “cleared” off the “sick” banks. Therefore, the state met the coronacrisis with the sustainable banking system, and Ukraine did not have any problems in that area for the first time during the crisis. There were also changes in the public financial management system: actions were taken to improve tax administration, to introduce the single point of contact at the customs, to carry out fiscal consolidation, and to introduce the electronic public procurement system ProZorro. In 2018, the medical reform, which had been delayed for years, finally started. The government also started the gas and electric power market reform, changed the social support system, namely to mitigate negative impact of the increase in the housing and utility tariffs upon the vulnerable populations.

A number of reforms were introduced to adapt the Ukrainian laws to the EU rules and regulations pursuant to the Association Agreement between Ukraine and the EU, implementation of which, without limitation, facilitated liberalisation of trade and growth of export and import. As a result, the real GDP in 2020 went down only by 4.0% against the background of stable operation of the banking system, growth of private consumption and material state investment.

The real ultimate private consumption went up by moderate 2.7% in 2016 and grew by around 10% for the next three years in average monthly terms (Figure 2). It was facilitated by an increase in the disposable household income as a result of growth of the work pay, recovery of business income as well as increase in pensions.

Figure 2: Growth of the real private consumption and GFCF



Note: P – preliminary data

Source: Statistics Service

Thus, in 2017, the government increased the minimum wage twice (up to UAH 3,200 per month) and kept increasing the minimum wage in the next few years, which traditionally has a material impact upon growth of the average salary. Growth of the average salary was also caused by the situation in the labour market due to the labour migration of the Ukrainians as well as economic recovery. In general, in 2019, the average salary in real terms was 60.4% higher than in 2015 and made UAH 10,497 per month (Figure 3). However, the unemployment level remained high against 2014 and went down only to 8.6% for the economically active population of the employable age in 2019, in comparison with 9.7% in 2016.

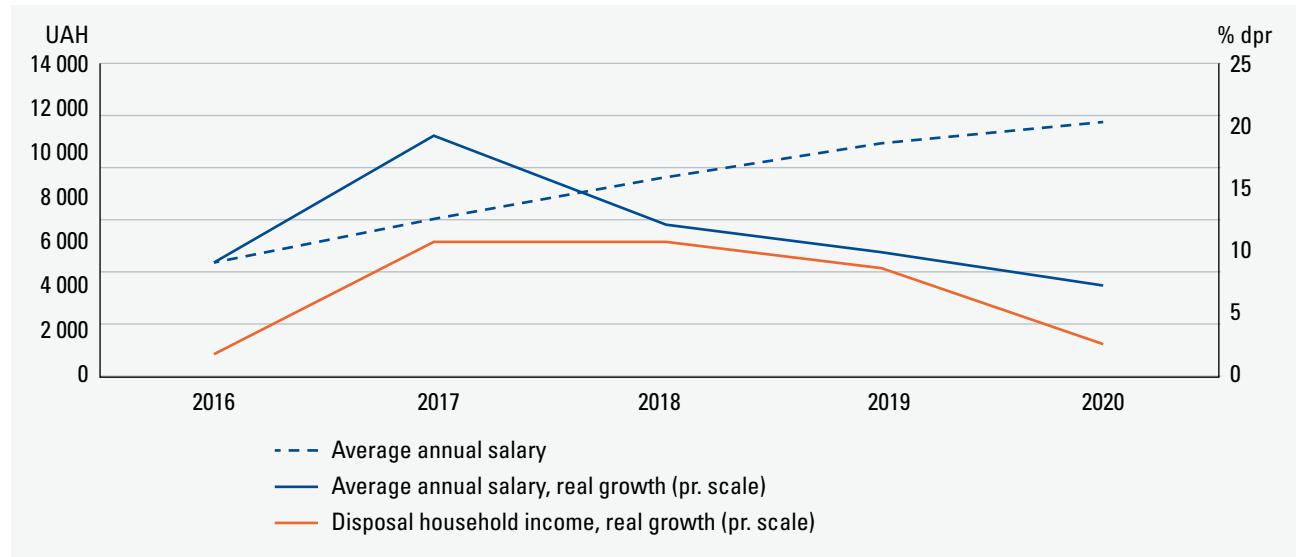
During the coronacrisis in 2020, the unemployment level went up due to the lockdowns imposed by the government and long quarantine restrictions, which mostly have a negative impact upon operations of passenger transport, restaurant and hotel business, culture and leisure. During the year, amendments were made to the laws for financial support of businesses as well as conditions for flexible employment forms. Moreover, it was decided to carry out pension index adjustment earlier than scheduled and to introduce additional pension payments for specific categories of pensioners, and to considerably increase the minimum wage from September 2020 and January 2021. Such



actions supported the disposal household income, which demonstrated minor growth

in real terms in 2020 and, in its turn, facilitate growth of real private consumption.

Figure 3: Average salary and disposable household income



Source: Statistics Service

Following the rapid decline in 2014 and 2015 (by 24.0% and 9.2% accordingly), the real gross fixed capital formation (GFCF) started to recover quickly in 2016 due to several reasons. In particular, they were insufficient financing in the past year and, therefore, the need for finance certain upgrade projects. Also, the recovery was facilitated by improvement of financial results of the companies that set up new supply chains, in particular, owing to implementation of the Association Agreement between Ukraine and the EU, and made use of the favourable foreign market environment and high domestic demand. It is important since the principal source of financing of capital investment in Ukraine traditionally is of enterprises whereas bank lending is limited as a result of the comparatively high risks and, therefore, high lending rates.

Due to the deterioration of financial results of enterprises and the high level of uncertainty in 2020, the GFCF was reduced by 24.4%. At the same time, the government increased construction expenditures and road repairs, including to maintain the economic activity. In 2020, in order to improve the lending market, the government introduced the state programme "Affordable Loans 5–7–9%", which is implemented by the Business Development

Fund. Within the programme, a part of the bank loan interest rate was initially compensated for the investment needs, and then the loans started to be granted for operational needs in pursuance of the anti-crisis pandemic actions.

The service industry and agriculture remain the drivers of economic growth among the economic industries. In agriculture, cattle breeding does not demonstrate high growth as a result of a decline in the cattle stock. At the same time, chicken and egg production is growing quite dynamically. However, crop production demonstrates the record-breaking yield although it materially depends on the weather conditions so many of the regions need investment into the irrigation systems to improve production of various crops.

In 2016–2018, the manufacturing industry grew slowly owing to the recovery of supply chains and increase in the domestic demand. However, the fall of metal prices, lower demand for tobacco products and a number of other factors resulted in reduction of the industrial production in 2019. The pandemic also had a negative impact upon the manufacturing industry. Although the prices of the metal ore and metals went up at the end of 2020 and



in 2021, the metallurgic companies received additional rental charges rather than expanded their production.

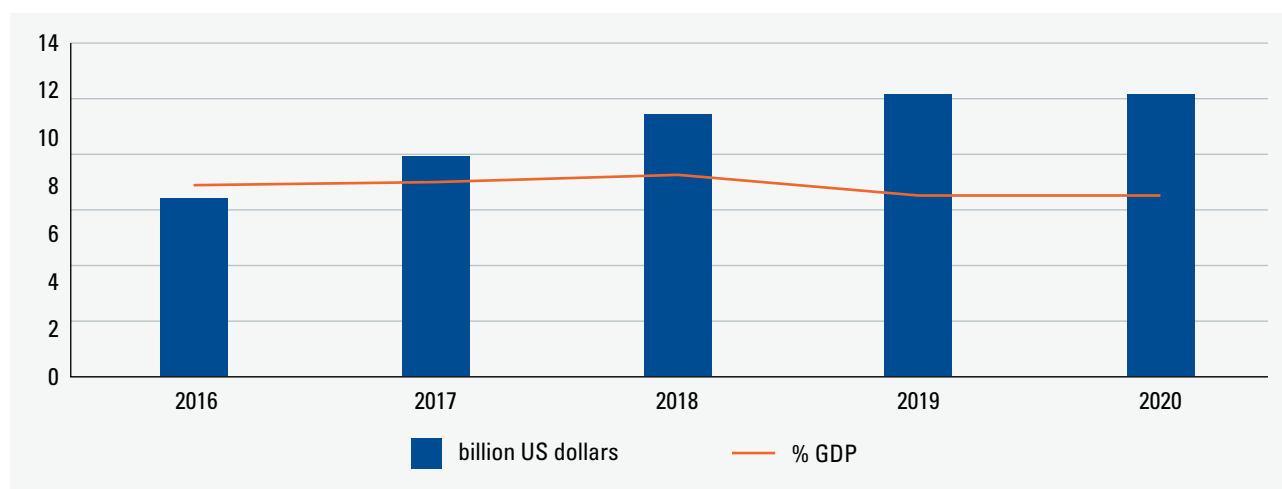
The IT sector, which plays a major role in service export, has been growing the fastest in the service industry for the last few years. Growth of trade and private consumption facilitate an increase in the real GVA in trade. At the same time, low performance of the railway and poor quality of the roads still are the factor that affects logistics in the metallurgic industry and grain production. The motor roads were improved in 2020 and 2021 against the background of the rapid increase in financing of road construction and maintenance at the expense of the State Budget. At the same time, further investment into the railway and port infrastructure is necessary to expand commodity exports.

Ukraine has found new principal trade partners for the last few years, which results from the war with Russia and implementation of the Association Agreement with the EU. Russia has ceased to be the principal trade partner whereas the share of the EU in the export and import has grown considerably. The trade balance remains negative, which causes debates on the need to invest into the sectors with the high added value.

Ukraine traditionally exports raw materials in the first place: agricultural goods (grain crops) and metallurgic products. At the same time, the demand for investment goods also results in more imports. Ukraine also imports gas, oil and oil products, which means the priority of investment into energy efficiency and transition to the green energy. During the pandemic in 2020, the large share of raw materials in the export structure of Ukraine turned out to be an advance since the demand for raw materials remained high, and the prices grew rapidly. As a result, the current account of the payment balance was consolidated with the positive balance.

At the same time, despite the high demand for investment and attractiveness of the country due to the large market, educated population and convenient geographic location, direct foreign investment remains extremely low. It results from not only the war in the east of the country, but also lack of the efficient title protection system and efficient independent and fair judicial system. At the same time, Ukraine receives more funds as transfers from abroad from the labour migrants than DFI. Thus, such transfers are an important source of the foreign currency in the country as well as support of well-being of the migrants' families (Figure 4).

Figure 4: Private money transfers from abroad into Ukraine



Source: NBU

According to the survey of the Statistics Service on labour migration, transfers from abroad prevent poverty of the migrants' households³. In

the first place, the transfers are used to satisfy daily needs; they are also used to purchase durable goods, accommodation or to

³ <http://www.ukrstat.gov.ua/druk/publicat/Arhiv u/11/Arch ztm.htm>



redecorate a house/apartment. In general, transfers from abroad are a material source of development finance. However, this source is not sustainable and stable, namely, due to the family reunions abroad. That is why they should not be relied on in the development finance strategy.

In general, sustainability of the Ukrainian economy has grown for the last few years. At the

same time, the development finance needs considerably exceed the available investment, which is explained by the unsatisfactory investment climate in the first place (see Section 8). Furthermore, the manufacturing industry and other sectors are in acute need of investment to upgrade their production facilities and introduce new technologies whereas the state lacks funds to expand the quality and sustainable infrastructure.



Chapter 3.

STRATEGIC PLANNING

3.1. Strategic Documents

“There is no robust strategic framework and a lack of clear hierarchy of planning documents in Ukraine.” This very conclusion is the result of the UNDP study “Analysis of the Institutional Environment and Legal Framework That Governs Public Financing of the SDGs”⁴ It is connected with absence of the clear unified system of strategic planning principles and rules at the legislative level as well as non-compliance with the effective laws on development of the strategic documents of the policy.

The Constitution of Ukraine clearly sets the strategic goals of the state – full membership with the EU and NATO, which are to become a basis for development of all the other strategic documents. Ukraine’s obligations on its path to the EU are stipulated in the Association Agreement between Ukraine and the EU, which was made in 2014. This Agreement actually is a robust reform strategy for Ukraine, and the government has adopted the Action Plan in pursuance thereof.⁵

In practice, the Verkhovna Rada of Ukraine, the President and the Cabinet of Ministers do not always clearly exercise their powers in strategic planning and implementation of changes.⁶ The key role in determining the strategic agenda of economic reforms is often played by the President although, according to the Constitution, he or she ensures state

independence, national security and legal succession of the state, makes speeches to the public and annual and extraordinary speeches to the Verkhovna Rada of Ukraine on the internal and external environment in Ukraine, acts on behalf of the state in international relations, manages the foreign political activity of the state, negotiates and signs international treaties of Ukraine etc. At the same time, the role of the Cabinet of Ministers in development and implementation of national programmes for economic, scientific and technical, social and cultural development, environmental protection is quite often limited to the laws and resolutions that are adopted by the Verkhovna Rada and are inconsistent with the governmental strategic plans. Lack of the heredity of the policy should also be mentioned since each new Cabinet of Ministers of Ukraine in general (and each new minister in particular) develops new strategic documents of the policy despite the existing concepts and plans, with some exceptions.

Law of Ukraine “On the State Forecasting and Development of the Economic and Social Development Programmes of Ukraine” No. 1602-III, which was adopted in 2000, is obsolete and is of rather declarative nature. According to the Law, strategic documents can be adopted by the President, the Government, the Verkhovna Rada and

⁴ This section is based on the results presented in the existing UNDP document “Analysis of the Institutional Environment and Legal Framework That Governs Public Financing of the SDGs”, https://www.ua.undp.org/content/ukraine/uk/home/library/democratic_governance/analysis-of-the_institutional-environment-and-legal-framework-th.html

⁵ <https://zakon.rada.gov.ua/laws/show/1106-2017-%D0%BF#Text>

⁶ <https://zakon.rada.gov.ua/laws/show/254%D0%BA/96-%D0%B2%D1%80#Text>



specialised ministries at the national level. At the same time, there is no clear hierarchy of the strategic documents of the policy that are developed by various authorities.⁷ Thus, it is not clear today who in the government is a “leader” in strategic planning, and this role is actually performed by different ministries and the SCMU. The latter may block certain resolutions promoted by the linear ministries, as it has happened to the draft law on strategic planning promoted by the Ministry of Economy. The purpose of that draft law was to establish the framework and principal elements of the strategic planning system, namely the clear hierarchy of strategic documents and documents on planning.

In March 2021, the Cabinet of Ministers of Ukraine adopted the National Economic Strategy until 2030 (NES-2030), which is supposed to become the actual framework for all

the other strategic documents in the country. NES-2030 fully considers Ukraine’s obligations to achieve the Sustainable Development Goals until 2030 for the first time. However, given the lack of the clear strategic planning system, it is difficult to understand whether the existing strategic documents on resolution of specific issues, development of specific sectors and industries of the economy must be revised. Moreover, NES-2030 contains a long list of priorities that are hard to implement under the conditions of limited financing. Also, the document does not assess the scope of necessary financing from various sources although some of the sections specify the amounts of necessary investment into different types of economic activities. However, the general scope of necessary financing is expected to be determined in the Action Plan for Implementation of the Strategy, which is being developed by the government.

3.2. Place of the SDGs in Strategic Planning

In 2017, the Ministry of Economic Development and Trade of Ukraine prepared the National Report “Sustainable Development Goals: Ukraine”, which sets the initial indicators and targets of development of Ukraine in order to achieve the Sustainable Development Goals approved by the UN in 2015.⁸ Ukraine uses the national (adapted) system for determining the tasks and indicators of implementation of the SDGs: 86 national development tasks and 172 monitoring indicators have been set in total. The report on the SDGs was approved by the Interdepartmental High Level Work Group on Organisation of Implementation of the SDGs in Ukraine.

In September 2019, the President clearly set Ukraine’s obligations to ensure adherence to all seventeen sustainable development goals until

2030 in his Decree.⁹ Pursuant to the Decree, the Cabinet of Ministers of Ukraine and other interested groups shall facilitate analysis of the relevant forecast and programme documents and take actions to improve them, and shall ensure introduction of the SDG implementation monitoring system. In January 2020, the Ministry of Economy¹⁰ published the first Voluntary National Overview of the SDGs in Ukraine¹¹.

In August 2019, the CMU decided that the Statistics Service was the authority responsible for providing and publishing information to monitor achievement of the SDGs.¹² In September 2020, the Statistics Service published the monitoring tool on its web-page.¹³ This new tool enables tracing progress of the SDGs at the national level (starting from 2015).¹⁴

⁷ More detailed information can be found in the UNDP document “Analysis of the Institutional Environment and Legal Framework That Governs Public Financing of the SDGs”, [https://www.ua.undp.org/content/ukraine/uk/home/library/democratic governance/analysis-of-the- institutional-environment-and-legal-framework-th.html](https://www.ua.undp.org/content/ukraine/uk/home/library/democratic%20governance/analysis-of-the-institutional-environment-and-legal-framework-th.html)

⁸ Mode of access to the National Report <https://me.gov.ua/Documents/Download?id=05822f66-290b-4b51-a392-347e76eb5f>

⁹ <http://www.president.gov.ua/documents/7222019-29825>

¹⁰ The monitoring report was made pursuant to Order of the Prime Minister of Ukraine No. 33598/1/1-19 dated 3 December 2019 in pursuance of the Decree of the President: [http://www.ukrstat.gov.ua/csr prezent/ukr/st rozv/publ/SDGs-MonitoringReport v08 24.09.2019.pdf](http://www.ukrstat.gov.ua/csr%20prezent/ukr/st%20rozv/publ/SDGs-MonitoringReport%20v08%2024.09.2019.pdf)

¹¹ <https://bit.ly/346ly5c>

¹² <https://zakon.rada.gov.ua/go/686-2019-%D1%80>

¹³ [http://ukrstat.gov.ua/csr prezent/ukr/ukr4/index.html](http://ukrstat.gov.ua/csr%20prezent/ukr/ukr4/index.html)

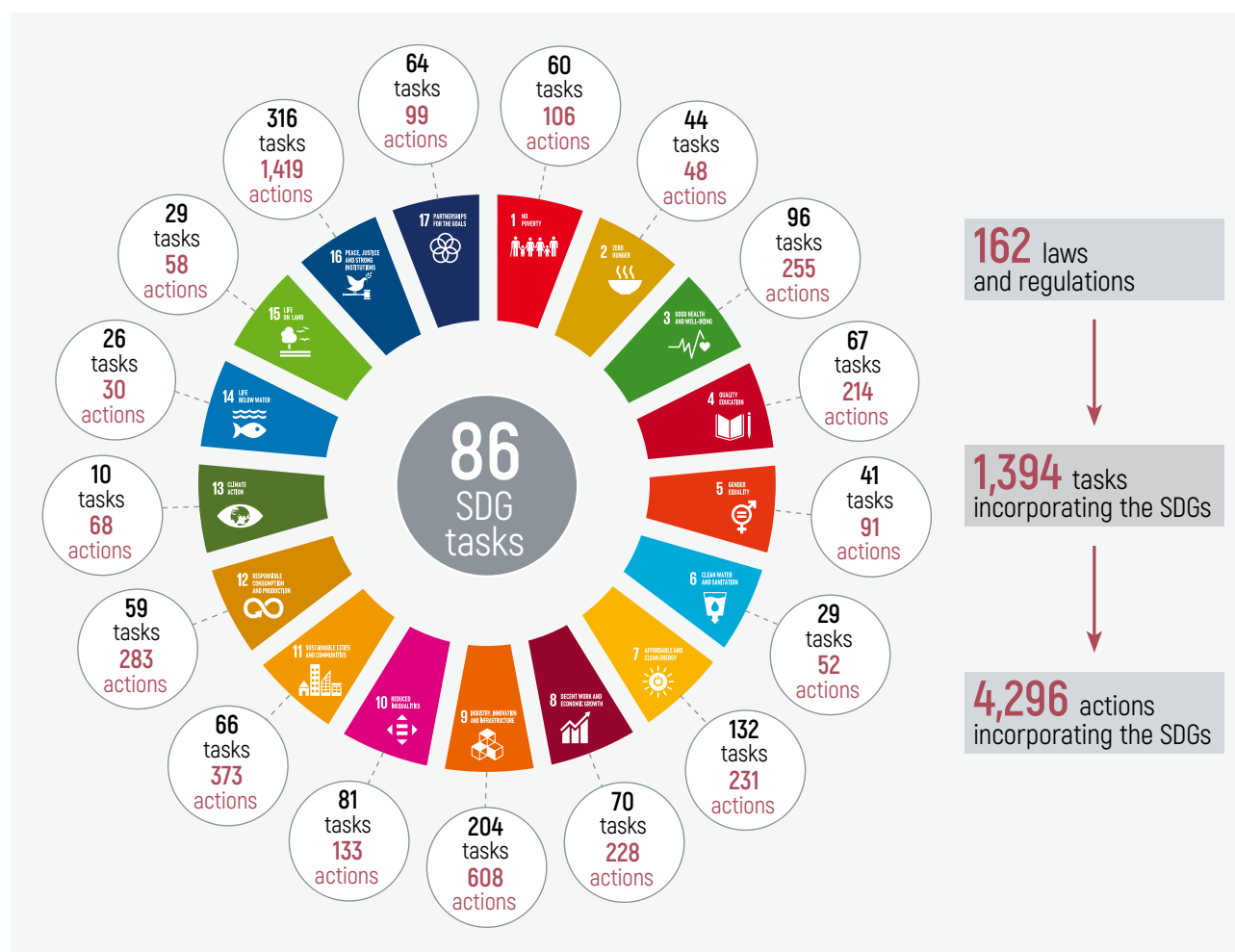
¹⁴ The data can be found here: [http://ukrstat.gov.ua/csr prezent/ukr/st rozv/metadata/metadata.htm](http://ukrstat.gov.ua/csr%20prezent/ukr/st%20rozv/metadata/metadata.htm)



In December 2020, the Cabinet of Ministers of Ukraine amended the Regulations of the CMU, according to which formation and implementation of the national policy has to consider, without limitation, achievement of the SDGs.¹⁵ At the same time, analysis of the Ministry of

Economy demonstrates that the SDGs are already a part of the national strategies and programme documents, and 145 strategic and programme documents are consistent with the SDGs (Figure 5).¹⁶ In general, it can be explained by the universal nature of the SDGs.

Figure 5: Status of inclusion of the SDGs into the effective laws and regulations (national strategies and programme documents)



Source: Ministry of Economy, Voluntary National Overview "Sustainable Development Goals, Ukraine", 2020

The efficient and coordinated strategic planning system is the pre-condition necessary to achieve the SDGs until 2030. For this purpose, the UNDP suggests using such tool as the Integrated National Financing Framework (INFF).¹⁷ This tool has to be used to determine

the development priorities, to improve the planning quality in the country and to overcome issues in sustainable development finance and achievement of the SDGs. The special high level work group was established in Ukraine in spring 2021 to implement and use this tool.

¹⁵ <https://zakon.rada.gov.ua/laws/show/1285-2020-%D0%BF#n11>

¹⁶ <http://www.ukrstat.gov.ua/csr prezent/ukr/st rozv/publ/SDGs-MonitoringReport v08 24.09.2019.pdf>

¹⁷ More detailed information on the INFF can be found here: <https://inff.org/>

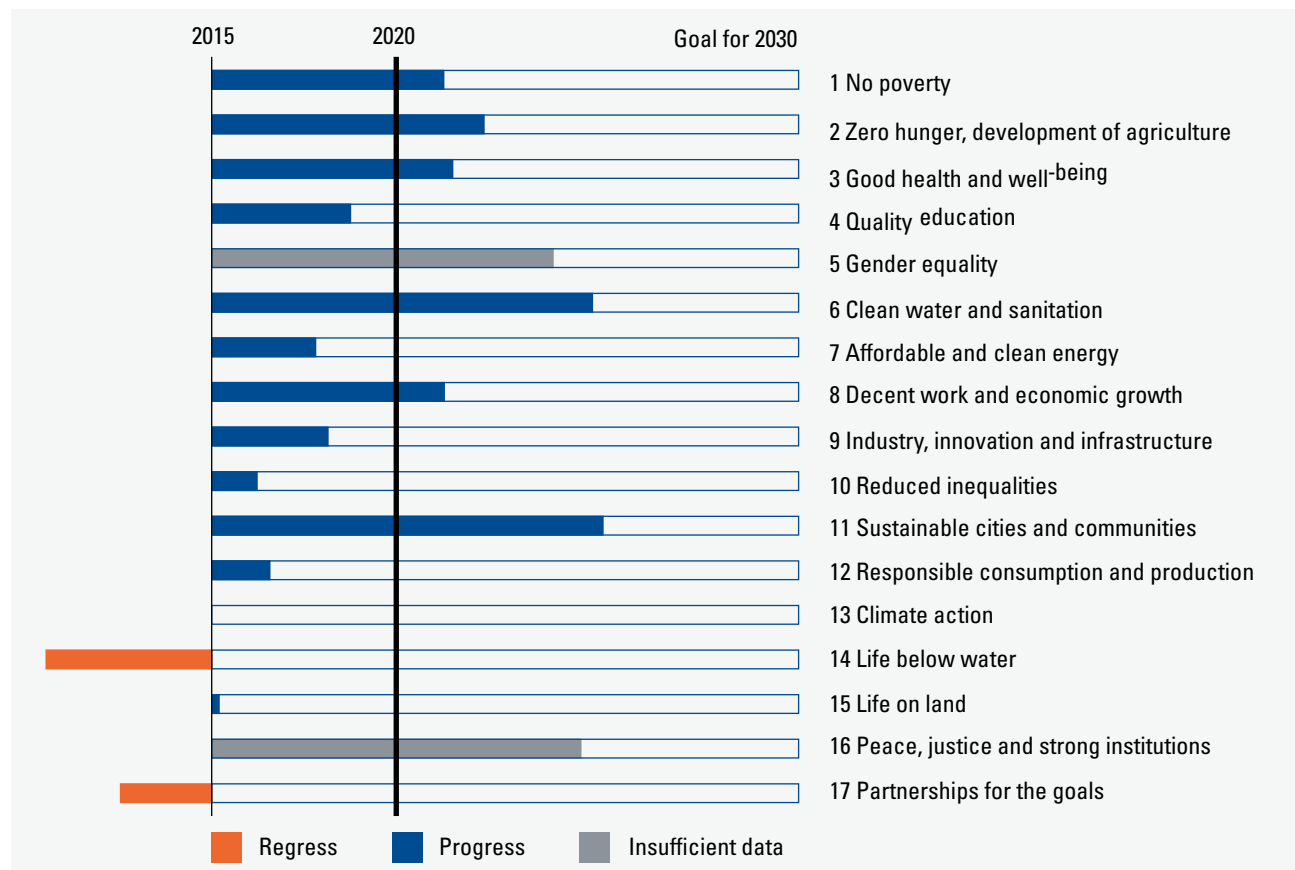


3.3. Monitoring of Progress of the SDGs

The system for comprehensive monitoring of achieving the SDGs 2030 and falling behind the plan has been introduced for the last few years. In January 2020, the Ministry of Economy published the first Voluntary National Overview of the SDGs in Ukraine¹⁸. In September 2020, the Statistics Service as the authority responsible for providing and publishing information to monitor achievement of the SDGs¹⁹ presented the monitoring tool on its web-page.²⁰ This new tool enables tracing dynamics of the progress of the SDGs at the national level, starting from 2015.

The results of monitoring the progress of the SDGs 2030 show that the situation with SDGs 14 and 17 has deteriorated in comparison with 2015 (Figure 6). There are no data on SDG 13 whereas SDGs 5 and 16 lack data to fully assess the implementation progress. There has been progress for the other sustainable development goals, but it is minor for SDG 15. At the same time, if the level of tasks is considered, the situation looks ambiguous (See Annex 11.2).

Figure 6: Current progress for the SDGs



Note: progress of SDG 13 cannot be determined

Source: Statistics Service

Many sustainable development goals have the tasks that are reported by the Statistics Service to have the negative implementation trend. The same can be said about indicators in terms of the tasks (Figure 7). In particular, the Statistics Service refers to falling behind

all the targets of SDGs 10, 14, 15 and 17 for which the targets for 2030 have been set, which means the high and very probable risk of failing to achieve the goals. However, targets have not been set for some of the indicators.

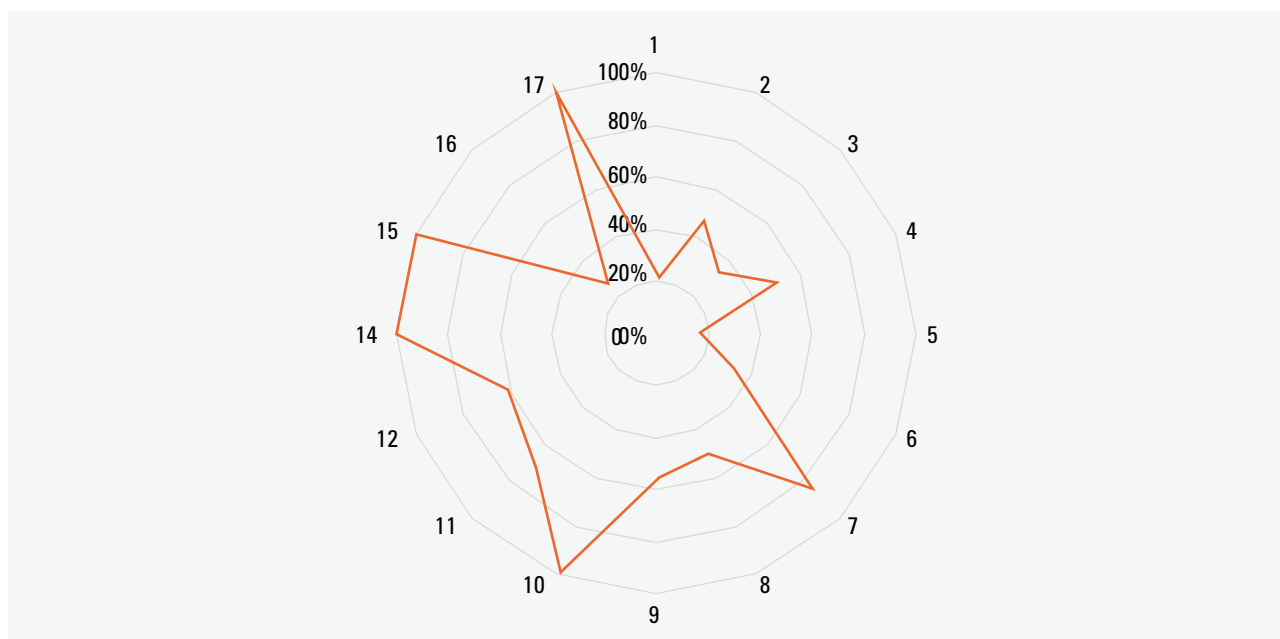
¹⁸ <https://bit.ly/346ly5c>

¹⁹ The data can be found here: <http://ukrstat.gov.ua/csr prezent/ukr/st rozv/metadata/metadata.htm>

²⁰ <http://ukrstat.gov.ua/csr prezent/ukr/ukr4/index.html>



Figure 7: Share of the indicators falling behind in achievement of the sustainable development goals



Note: according to the Statistics Service, progress of SDG 13 cannot be measured. When the aggregate quantity of indicators for the sustainable development goals was calculated, the ones with the targets were used. The indicators with no goals for 2030 were not considered²¹.

Source: Statistics Service

To sum up, it should be noted that Ukraine has the tool to monitor performance of the tasks and indicators of the sustainable development goals. At the same time, the targets for 2030 and intermediary 2025 have

not been set for some indicators. Therefore, the respective goals should be determined in order to improve monitoring of progress of achieving the sustainable development goals.

²¹ Thus, four indicators of SDG 16 and two indicators of SDG 17 were considered for calculations in the Figure, whereas they are set to be 24 and 4 accordingly, with no goals set. Therefore, progress/regress in implementation thereof cannot be measured.



Chapter 4.

STATE BUDGET

4.1. Budget Planning

The Budget Code of Ukraine (BCU) establishes the budget planning principles, rules and time frames both at the national and local levels.²² In particular, the Code clearly specifies the sources of revenues of the state and local budgets, the list of the funds that are transferred to the general fund of the budget or the special fund (targeted proceeds) as well as powers of different budget levels in financing of expenditures. The consolidated budget is made of the state and local budgets with account of the net inter-budget transfers.

In 2015-2020, there was a decentralisation reform with the fiscal and administrative element. Its purpose was to create the capable territorial communities. The districts as territorial units have almost lost their significance, and the considerable part of the respective powers was transferred to the communities. The communities also receive direct inter-budget transfers from the State Budget whereas most transfers used to be redistributed from the central level via the regional and district budgets.

As a result of decentralisation, the revenues and powers of the territorial communities established to improve the financial capacity of the local budgets have grown. At the same time, no definition of the financially capable community hinders assessment of success of the decentralisation reform. However, the definite success has been a decrease in the

number of local budgets as well as transition of the territorial communities to direct inter-budget relations with the State Budget. Thus, the access of the population in different communities to public services is aligned.

The approaches to financing of specific public services have also changed. Secondary education is still financed by the local authorities, mostly with the educational subvention from the State Budget to the local budgets. At the same time, the medical subvention has been replaced with payment of the National Health Service of Ukraine (NHSU) for the medical aid granted by the health care facilities (HCF) pursuant to the agreements made between the NHSU and the HCF. It has resulted from the medical reform, which covered the primary medical aid in 2018 and specialised one in 2020. Since 2020, some of the social support programmes have been financed on a centralised basis via the Ministry of Social Policy while they used to be financed with the subvention to the local budgets. The subvention to finance housing and utility subsidies was replaced with the monetised targeted transfers to the cards of the household that receive them.

As of today, there is no clear connection between strategic and budget planning although there was a breakthrough in this area in 2021 since the government officially adopted the mid-term Budget Declaration for

²² <https://zakon.rada.gov.ua/go/2456-17>



2022-2024 for the first time.²³ Introduction of the mid-term budget planning was prescribed by the Strategy for Reformation of the Public Financial Management System (PFMS) for 2017-2020 as the measure necessary to align the strategic and budget planning.²⁴ However, the adopted Declaration repeatedly demonstrated the weakness of the principal budget owners as to determination of the goals of their activity and key performance indicators based on the SMART principles. The indicators and goals of the principal budget owners submitted in the documents of the Declaration are mostly of declarative nature and do not explain the priorities and estimated results. In the first place, the Declaration also fixes the current state of affairs and expectations as to continuation of the existing tendencies rather than expected results of the actions prescribed by the adopted National Economic Strategy until 2030.

The Budget Declaration for 2022-2024 was a basis for the draft State Budget for 2022. The State Budget still is a one-year document, but all the budget owners prepare three-year budget requests. Other important budget documents are also the procedure for utilisation of funds for each budget programme and approved budget programme data sheets. Starting from 2021, when they prepare their budget requests for future periods and forecast the local budgets, the local authorities also have to consider the indicators and priorities specified in the Budget Declaration. The purpose of such forecasts is to improve predictability of the local policy, which is supposed, without limitation, to improve the business environment.

Since the budget process in Ukraine is based on the management by objectives, budget requests and budget programme data sheets at the national and local levels have to set clear performance indicators. However, in most cases, these documents lack the indicators that would enable practical assessment of performance and efficiency of budget programme financing. Thus, budget requests of

the budget owners at the national and local levels are the basic documents on which annual budgets are based. Budget programmes data sheets are approved annually following approval of the budget that provides for funds to finance the respective programme. The programme data sheet has to specify the purpose, tasks, areas of use of the budget funds as well as performance indicators, the product, expenditures and efficiency. At the same time, despite their considerable numbers, such indicators often fail to meet all the SMART principles (specific, measurable, assignable, realistic, time-related); in particular, they are not specific and measurable. As a result, efficiency of management by objectives goes down since there are no clear goals, and the expected results hinder assessment of the budget funds spent to achieve the goal set. Despite the effective orders of the Ministry of Finance on determination of the performance and efficiency indicators and numerous workshops held within several technical assistance projects, the principal budget owners (PBOs) still cannot resolve this issue.

At the same time, in 2021, the PBOs tried to assess performance of their budget programmes financed from the State Budget in 2020 for the first time.²⁵ It was done pursuant to the Assessment Procedure adopted in 2020.²⁶ The assessment result is expected to be, without limitation, better determination of clear and understandable performance indicators of the budget programmes in the future. In particular, such indicators of a number of budget programmes could be the tasks and indicators set at the national level for seventeen sustainable development goals. However, the sustainable development goals and related indicators still have not become indicators of such assessment.

It should also be noted that gender-responsive budgeting (GRB) is mandatory both at the local and central levels. Therefore, the performance indicators of the budget requests and programmes have to consider this budgeting aspect.

²³ <https://mof.gov.ua/uk/news/biudzhethnu deklaratsiiu 2022 2024 podano na rozgliad verkhovnoi radi-2905>

²⁴ <https://zakon.rada.gov.ua/laws/show/142-2017-%D1%80#n9>

²⁵ The Ministry of Finance has collected all the links to the respective assessment on its website: <https://mof.gov.ua/uk/news/rezultati monitoringu opriliudnennia golovnimi rozporiadnikami rezultativ otsinki efekтивности biudzhethnikh program derzhavnogo biudzhetu za 2020 rik-2911>

²⁶ Order of the Ministry of Finance No. 223 dated 19.05.2020 "On Assessment of Performance of the Budget Programmes of the State Budget".

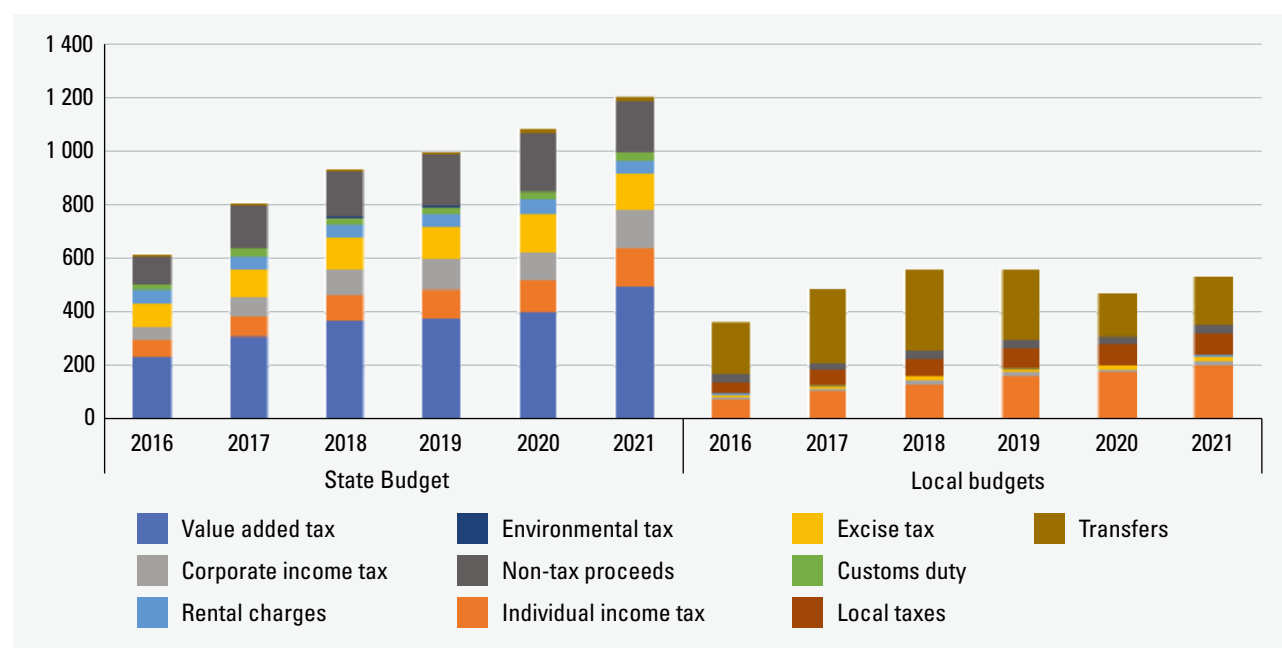


4.2. Budget Revenues

The important source of financing the sustainable development of the state is the consolidated budget, which includes the state and local budgets to which taxpayers pay taxes and effect non-tax budget payments (allocation of main payments between different budget levels is presented in Annex 2). Also, Ukraine has off-budget funds of mandatory state insurance: the Pension Fund of Ukraine, the Fund of Mandatory State Social Unemployment Insurance and the Social Insurance Fund of Ukraine, whose main source of own revenues is the unified social tax.²⁷

The revenues of the consolidated budget of Ukraine in 2016-2020 grew in nominal terms owing to an increase in the tax assessment base for the main tax payments and growth of non-tax proceeds (Figure 8). The structure of revenues of the consolidated budget by the sources of filling during that period remained relatively stable. In the revenues of the consolidated budget, the specific weight of revenues of the State Budget (without account of transfers) made 77.5% on average in 2016-2020. The traditional main source of revenues of the State Budget of Ukraine is the value-added tax (VAT), and the local budgets are filled with the individual income tax (IIT).

Figure 8: Revenues of the State and local budgets of Ukraine in 2016-2021, billion UAH



Source: based on the data from the State Treasury Service of Ukraine²⁸.

The major source of tax proceeds of the consolidated budget is the *value-added tax* (VAT), the basic rate of which is 20%. In order to improve the public health in the meaning of SDG 3, the beneficial VAT rate of 7% was set for medicinal products and medical devices. The VAT proceeds include the VAT on the goods (works, services) made in Ukraine and the VAT on the goods imported into the customs territory of

Ukraine. The largest losses of the VAT on the imported goods result from smuggling and “shadow” import, which are partly connected with the inefficient operations of the customs office. In addition to the direct loss of budget revenues, such phenomena have a negative impact upon the competitive position of the domestic manufacturers, which hinders growth of investment and employment, so

²⁷ The largest specific weight in the structure of the UST proceeds is the amounts accrued by the employers on the salaries, remuneration under civil law contracts, allowances for the temporary inability to work, and pregnancy and child birth aid. In 2016, the UST rate was reduced twice, down to 22%, which resulted in the considerable reduction of the UST proceeds. However, the employment de-shadowing effect was less than expected. Then growth of the UST proceeds accelerated with the growth of the minimum wage indicator in the next few years.

²⁸ There are reports on utilisation of the State Budget of Ukraine hereinafter. State Treasury Service of Ukraine. <https://www.treasury.gov.ua/ua/file-storage/vikonannya-derzhavnogo-byudzhetu>



indirect loss of budget revenues is the same significant as the direct one.

The *individual income tax* (IIT), including the *military tax*, is the second source of tax proceeds of the consolidated budget of Ukraine by significance. The military tax was introduced in August 2014 at 1.5% due to the need to increase the army financing during the armed aggression by Russia. It is paid by the resident individuals and non-resident individuals on the income listed by the Tax Code of Ukraine. In 2016, the progressive scale of IIT assessment was replaced with the level scale with the unified basic rate of 18%, plus 1.5% of the military tax. The IIT proceeds are allocated between the state and local budgets (Annex 12.3) whereas the military tax is only credited to the State Budget. As it has been stated before, the IIT is the principal source of revenues of the local budgets.

In 2016-2019, the IIT proceeds were increased owing to growth of salaries and recovery of the employment market, which facilitated growth of the payroll budget. In 2020, the IIT proceeds were affected by the consequences of COVID-19 quarantine. The most rapid decline in proceeds occurred in April and May 2020, the period of the harshest quarantine. Then the dynamics of proceeds recovered, including owing to an increase in the minimum wage from September 2020.

The main reason for the loss of budget revenues from the IIT has traditionally been salary shadowing and shadow employment. According to the estimates by the Ministry of Economy of Ukraine, the “shadow” payroll budget in Ukraine can reach around half a trillion Ukrainian hryvnias a year²⁹. There are two forms of such shadowing in Ukraine: unofficial employment and official employment with payment of the official minimum wage and the rest paid unofficially. Moreover, in order to evade the IIT and mitigate the UST, Ukraine has a common practice of using agreements with an individual entrepreneur (IE) with the simplified tax assessment system in order to avoid

the “full-scale” employment agreement that requires payment of all the applicable taxes. Instead, the IE does not pay the IIT and only pays the income tax at the considerably lower fixed tax rate to the local budget and the UST at the minimum level. This practice is especially popular in the IT industry, where 70% to 90% of the employees work like that according to different estimates.³⁰

Insert: Assessment of the Budget Losses by the State Tax Service of Ukraine

According to the STSU, Ukraine's losses from tax evasion (mitigation) schemes make approximately 7.7 billion US dollars a year (or around 207.6 billion Ukrainian hryvnias³¹), including: unofficial salaries – 4.3 billion US dollars, operations of tax mitigation and conversion centres – 1.5 billion, offshore companies – 0.8 billion, excisable goods – 1.0 billion, losses of state enterprises – 0.1 billion US dollars³²

The third place in the structure of revenues of the consolidated budget is the *excise tax*. Proceeds of the excise tax on the goods made traditionally exceed by the scope of proceeds from the imported goods. The largest proceeds from the excise duty on the products made are received from tax assessment of tobacco product manufacturing, and the excise duty on the goods imported – fuel import. At the end of 2017, the seven-year plan for the annual increase in the tobacco excise taxes on cigarettes was approved in pursuance of the obligations under the Association Agreement between Ukraine and the EU.³³ This action is consistent with task 3.8 within SDG 3 “Good health and well-being” since the increase in the excise taxes resulted in less cigarette consumption. As a result of the high excise taxes, four major tobacco manufacturers traditionally rank the highest in the rating of the major tax payers of Ukraine alongside with the large state monopolies.

At the same time, the illegal circulation of cigarettes has grown. The respective losses of the State Budget as a result of the taxes unpaid in 2021 are estimated to be 14.4 billion Ukrainian

²⁹ Ukrainian Forum “Ukraine 30. Labour Resources”. 20.07.2021. <https://www.facebook.com/Forum.Ukraine30/posts/471991620541132>

³⁰ Portrait of the IT Specialist 2019. DOU. 11.06.2019. <https://dou.ua/lenta/articles/portrait-2019/>

³¹ Average official foreign currency exchange rate for 2020 considered: UAH 26.96 per US dollar.

³² O. Liubchenko Tax Matters. Looking below the Surface. Dzerkalo Tyzhnia. 29.03.2021 <https://zn.ua/ukr/macrolevel/podatkovyi-problemi-zri-v-korin.html>

³³ Law of Ukraine dated 7 December 2017 No. 2245-VIII.



hryvnias.³⁴ Moreover, despite the considerable decrease in the scope of illegal trade in tobacco products since 2016, Ukraine alongside with Belarus still is the leader by the volumes of supply of smuggled and counterfeit cigarettes to the countries of the European Union.³⁵ It means that the adopted *Strategy for Counteraction to Illegal Production and Circulation of Tobacco Products until 2021* (Decree of the Cabinet of Ministers of Ukraine dated 23 August 2017 No. 570 p) and the Action Plan for Implementation Thereof (Decree of the Cabinet of Ministers of Ukraine dated 29 January 2020 No. 128-p) have not been implemented on time and in full.

The fourth significant source of budget revenues is the *corporate income tax (CIT)*. The basic assessment rate for this tax (similar to the IIT) is 18%. Following the decline during the crisis in 2014 and 2015, the CIT proceeds started to recover in 2016-2019 owing to the improvement of the corporate financial results against the background of the growing domestic and external demand. In 2020, when the country introduced the harshest quarantine restrictions due to the pandemic of COVID-19, the corporate income tax remained at the level of the previous year 2019 (the proceeds of 117.3 billion Ukrainian hryvnias in 2019 and 118.5 billion Ukrainian hryvnias in 2020), in the first place, due to payment of the CIT by NAK "Naftogaz" on the income gained as a result of the case against Gazprom won in Stockholm Arbitration Institute. Also, the financial indicators of the metallurgic and agricultural enterprises were improved at the end of the year owing to the favourable foreign market environment.

The fact that Ukraine joined the *OECD Action Plan on Base Erosion and Profit Shifting (BEPS)* on 1 January 2017 also had a positive impact upon the corporate income tax paid.³⁶ When it joined the Plan, our country assumed the obligation to introduce the minimum standard, i.e. four out of fifteen actions (actions 5, 6, 13, 14). In pursuance of the *BEPS* Plan, Ukraine signed

in July 2018 and ratified in February 2019 the MLI Multilateral Convention for the avoidance of abuse of conventions on the avoidance of double taxation, which is a basis for actions 6, 7, 14 and 15. In May 2020, the Law (No. 466 dated 16.01.2020) introducing nine actions (actions 3, 4, 6, 7, 8-10, 13 and 14) of the BEPS Plan entered into force. Therefore, Ukraine is materially exceeding the minimum obligations it has assumed.

The bilateral conventions on the avoidance of double taxation are concurrently being revised, with the rates increased to fight the capital outflow from Ukraine, as almost six thousand enterprises declared payment of passive income to the non-residents during three years and a half, from 2017 through the first half of 2020, in the amount of 22.4 billion US dollars as dividends (10 billion US dollars), interest (3.9 billion US dollars), royalty (1.8 billion US dollars) etc. However, only the amount equivalent to 0.63 US dollars was withheld for the benefit of the state during those payments, which made on average only 2.8% of the funds transferred abroad.³⁷ According to the STS, 20% of such payments are high-risk.³⁸ One of the tools to collect the evidence of the violations committed during the payments for the benefit of non-residents is exchange of tax information with the foreign competent authorities.

The fifth place in the structure of revenues of the consolidated budget is the *local taxes and levies*. The local authorities may set their rates within the specific limits set by the Tax Code of Ukraine, but they often set the lowest rate possible. Two taxes, the property tax and the fixed tax, have the biggest fiscal significance among the local taxes and levies. The biggest proceeds of the property tax are land charges, namely lease charges for the state and municipal land plots from the legal entities. Moreover, the local authorities often not only set the land charges at the level close to the minimum one, but also revise the regulatory land appraisal with delays, which reduces proceeds from this tax.

³⁴ Monitoring of Illegal Trade in Tobacco Products in Ukraine (3rd wave of 2021). Kantar Ukraine. <https://tns-ua.com/news/monitoring-nelegalnoyi-torgivli-tyutyunovimi-virobami-v-ukrayini-3-hvilya-2021>

³⁵ Illicit cigarette consumption in the EU, UK, Norway and Switzerland. 2020 results. KPMG. 22.06.2021. P. 19. <https://www.stopillegal.com/docs/default-source/external-docs/kpmg-report--illicit-cigarette-consumption-in-the-eu-uk-norway-and-switzerland--2020-results.pdf>

³⁶ On 1 January, Ukraine is joining the BEPS Plan on tax avoidance. Governmental Portal. 23.11.2016. <https://www.kmu.gov.ua/news/249514846>

³⁷ International Conference "Implementation of the BEPS Plan in Ukraine" State Tax Service of Ukraine. 24.09.2020. (01:13:45). URL: https://www.facebook.com/watch/live/?ref=watch_permalink&v=649680932617165

³⁸ Payment of Non-Residents' Income Originating from Ukraine. State Tax Service of Ukraine. 20.08.2021. <https://tax.gov.ua/media-tsentr/novini/494342.html>



Insert: Implementation of the Actions of the BEPS Action Plan

Transfer pricing: improvement of control over transfer pricing with implementation of the clauses of actions 8-10, 13 of the BEPS Action Plan as to: control over allocation of functions, risks and intangibles inside the company group; rules for transactions involving raw materials by ruling out the restriction of using exchange quotations of specific stock exchanges only and by enabling to use the quotation prices for such goods; introduction of the three-tier structure of documentation for international company groups;

International procedures: use of the mutual agreement procedure (Action 14), which provides for the mechanism for submitting the application for consideration of the case based on the mutual agreement procedure, the requirements to such application, the action procedure of the regulatory authority etc.

Controlled foreign companies: definition of the controlled foreign companies and their tax assessment (Action 3), which includes: introducing the concept of tax assessment of the income of controlled foreign companies at the level of the controlling individual or the legal entity being the controlling entity for such company; obligation of the controlling entities to submit a report on the controlled foreign companies to the regulatory authority; limitation of expenses for financial related-party transactions (Action 4).

International tax assessment: prevention of abuse in connection with the treaties on the avoidance of double taxation (Action 6); preventing evasion of the status of the permanent establishment, and tax assessment of permanent establishments (Action 7).

Source: Law of Ukraine "On Amending the Tax Code of Ukraine regarding Improvement of Tax Administration, Elimination of Technical and Logic Inconsistencies in Tax Laws" dated 16 January 2020 No. 466-IX³⁹

The individual entrepreneurs and legal entities registered as payers with the simplified tax assessment system shall pay the fixed tax. That system was created at the end of the 1990s to encourage development of entrepreneurship and legalise micro and small businesses. Therefore, four groups of tax payers with the simplified tax assessment system today. The fixed tax rate for the first two groups is fixed whereas the third group pays 3% of the gross revenues plus the VAT or 5% of the revenues including the VAT. The benefit of the system is simplified accounting and reporting. The fourth group is agricultural manufacturers.

The material role in the structure of the property tax is played by tax on the real estate different from the land plot, namely the one paid by the legal entities that own non-residential real estate. The tax assessment base of the residential and non-residential real estate items owned by the individuals is calculated based on the data from the State Register of Property Rights to Real Estate. According to the experts, up to 40% of such property is not available in the State Register. Failure to pay the tax on the non-residential and residential real estate due to lack of the complete data base of the tax assessment items in the State Register of Property Rights to Real Estate incurs annual damages of up to two billion Ukrainian hryvnias

upon the local budgets.⁴⁰ The least significant element in the structure of the property tax is the transport tax that is charged on the new expensive vehicles.

The special role in the capital city of Kyiv, Odesa and Lviv Regions is played by the tourist levy. Its proceeds kept growing steadily in 2016-2019. However, its actual payment in 2020 was lower than planned and than in the previous year due to the restrictions imposed in connection with COVID-19 quarantine.

Rental charges are the sixth significant source of revenues of the consolidated budget. Rental charges received are allocated by their elements between the state and local budgets in accordance with the Budget Code of Ukraine. Payment of rental charges has the variable dynamics. The largest rental charges are payments for subsoil use. In their turn, the largest rental charges for national subsoil use are received as payments for subsoil use to produce natural gas, oil, iron ore and gas condensate. Several years ago, there was a discussion of the need to change the rate of rental charges, in particular, for the iron ore production, but the super-profits from subsoil use were received by the private businesses in the first place due to the powerful lobby whereas the budget received a minor share of revenues⁴¹.

³⁹ Amendments under Law No. 466-IX Improving the Tax Laws. State Tax Service of Ukraine. 25.05.2020. <https://www.tax.gov.ua/nove-pro-podatki--novini-/419682.html>

⁴⁰ Ministry of Finance Calculates Losses of Local Budgets from Incomplete Payment of the Real Estate Tax. Ministry of Finance of Ukraine. 22.05.2020. <https://mof.gov.ua/uk/news/ministerstvo-finansiv-pidrakhuvalo-vtrati-mistsevikh-biudzhethiv-vid-nepov-noi-splati-podatku-na-nerukhome-maino-2151>

⁴¹ Law No. 1914-IX dated 30.11.2021 materially increased the rates to obtain additional budget proceeds at the higher market prices.

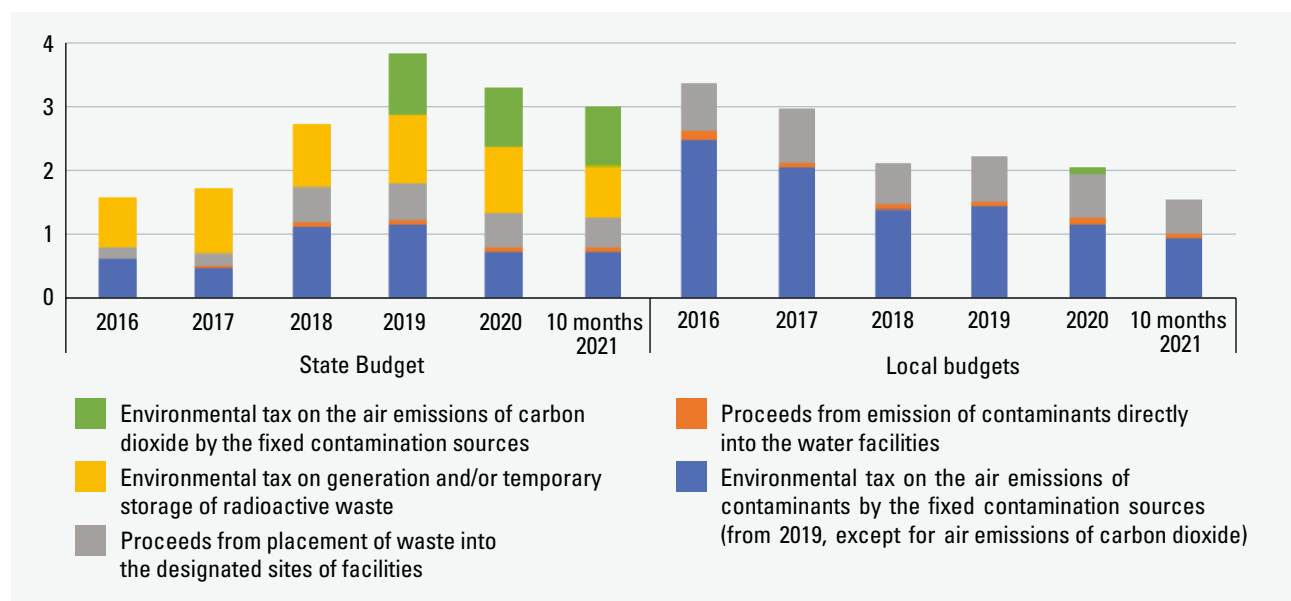


The important role is played by the *taxes on the international trade and foreign transactions*, the import duty in the first place. The import duties were considerably reduced during the negotiation on Ukraine joining the WTO in 2008.

The important source of financing of sustainable development could traditionally be an *environmental tax* (Figure 9). However, the laws of Ukraine on this matter still are imperfect and fail to encourage the industrial enterprises to reduce their emissions. Today the main part of the respective proceeds is the environmental tax paid for the contaminants emitted into the air by the fixed sources of contamination. Thus, 100% of the environmental tax paid for the carbon dioxide emissions into the air is credited to the general

fund of the budget. Since its targeted use for environmental protection is not prescribed, the tax does not encourage eco-upgrade and improvement of energy-efficiency of enterprises. In 2016-2018, the proceeds from the environmental tax were sustainable; in 2019, they grew owing to the rapid increase in the tax rate for carbon dioxide emissions by the fixed sources from UAH 0.41 per tonne up to UAH 10 per tonne or 24.4 times. The environmental tax rates will be materially increased for the second time from UAH 10 per tonne up to UAH 30 per tonne starting from 2022.⁴² Also, at least 70% of the proceeds from the environmental tax on the carbon dioxide emissions from the electric power and processing industry are expected to be directed at the decarbonisation actions.

Figure 9: Proceeds from the environmental tax paid to the state and local budgets, billion UAH



Source: based on the data from the State Treasury Service of Ukraine

The possible increase in the share of the environmental tax to be retained at the local level is actively discussed within the decentralisation reform.⁴³ In the opinion of the deputies being members of the Committee of the Verkhovna Rada of Ukraine on the Environmental Policy and Nature Management and the professionals of the Ministry of Environmental Protection and Natural Resources of Ukraine, it is now expedient to credit 30% of the environmental tax (except for the tax on generation of radioactive waste (including the

accumulated ones) and/or temporary storage of radioactive waste) to the State Environmental Protection Fund as a part of the special fund of the State Budget of Ukraine, with subsequent use solely for the targeted environmental protection actions, and 70% should be transferred to the special fund of the local budgets (the present-day proportion of dividing the environmental tax is 45% to the State Budget and 55% to the local budgets), with subsequent use of funds for the environmental protection. Moreover, the

⁴² Law of Ukraine No. 1914 dated 30.11.2021

⁴³ Accompanying materials to draft Law on the State Budget of Ukraine for 2021 No. 4000 dated 14.09.2020. Verkhovna Rada of Ukraine. https://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=69938

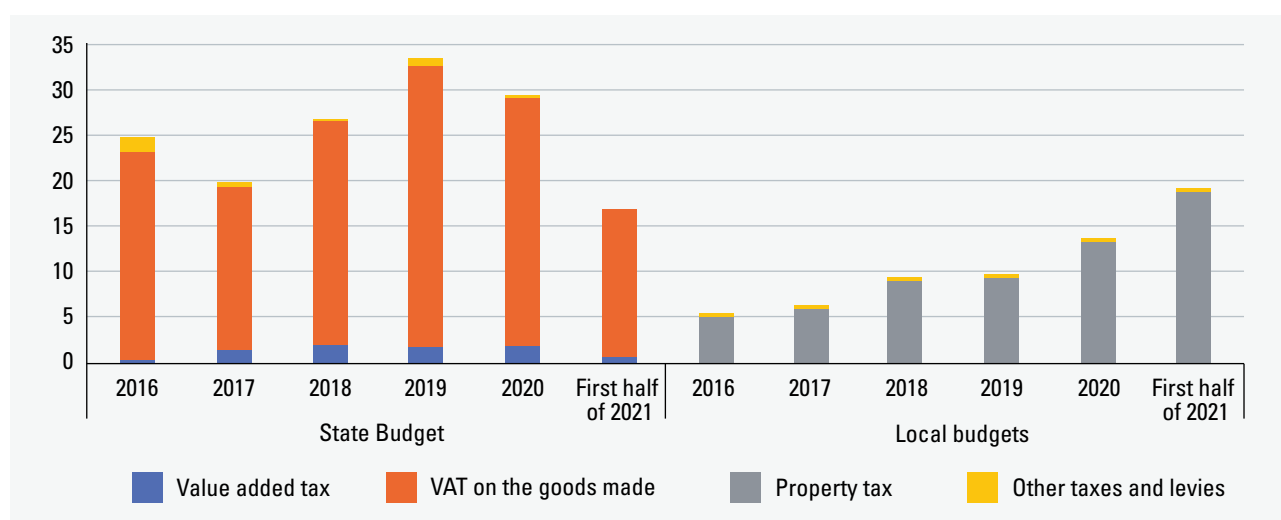


environmental experts unanimously believe that the governmental list of the environmental protection actions used by the principal budget owners when they spend their environmental tax at the state and local levels needs to be improved.⁴⁴

More proceeds of the state and local budgets enable their predictable and efficient use for better national security, sustainable development of infrastructure of the settlements, higher quality of medical services, and adequate level of education and culture. That is why the state must ensure efficient tax administration.

However, the revenues of the state and local budgets are negatively affected by the tax benefits. In 2016-2020, the tax payers were granted benefits in the amount of 177.2 billion Ukrainian hryvnias (Figure 10). It must be noted that this amount also includes budget losses as a result of introduction of the lower VAT rate for the medicinal products and medical devices, which can be considered as actions to achieve SDG-3. Despite the considerable budget losses, the systemic assessment of performance of benefits at the national level still is not performed.

Figure 10: Dynamics and structure of the tax benefits of the Consolidated Budget of Ukraine, billion UAH



Source: based on the data from the State Tax Service of Ukraine⁴⁵

However, the tax benefits on the VAT have materially reduced since 2016. For instance, one of the major benefits was the special VAT assessment regime for the agriculture and forestry as well as fishing for years. It was materially narrowed in 2016 and replaced with the direct budget support transfers to the agricultural sector in 2017.

Nevertheless, the share of the revenues lost as a result of the benefits facilitates achievement of the sustainable development goals. In particular, that is income tax exemption of the enterprises and organisations founded by the public organisations of persons with disabilities (losses of 0.02 billion Ukrainian hryvnias in 2020); VAT exemption of the operations to supply the services of higher, secondary, vocational and pre-school education of the educational

establishments (losses of 2.6 billion Ukrainian hryvnias) and the operations of health care services of health care facilities as well as services of the rehabilitation facilities for persons and children with disabilities (losses of 6.8 billion Ukrainian hryvnias).

The largest scope of benefits from the local budgets is the property tax. In particular, the cultural, scientific, academic, health care, social protection, physical education and sport facilities that are fully maintained at the expense of the state or local budgets (total losses of 3.8 billion Ukrainian hryvnias) are fully exempted from the land tax.

The state and local budgets are also affected by the tax debt of the tax payers (Figure 11). For three years, it grew from 69.6 billion

⁴⁴ List approved by the Resolution of the Cabinet of Ministers of Ukraine dated 17.09.1996 No. 1147 (as amended and supplemented).

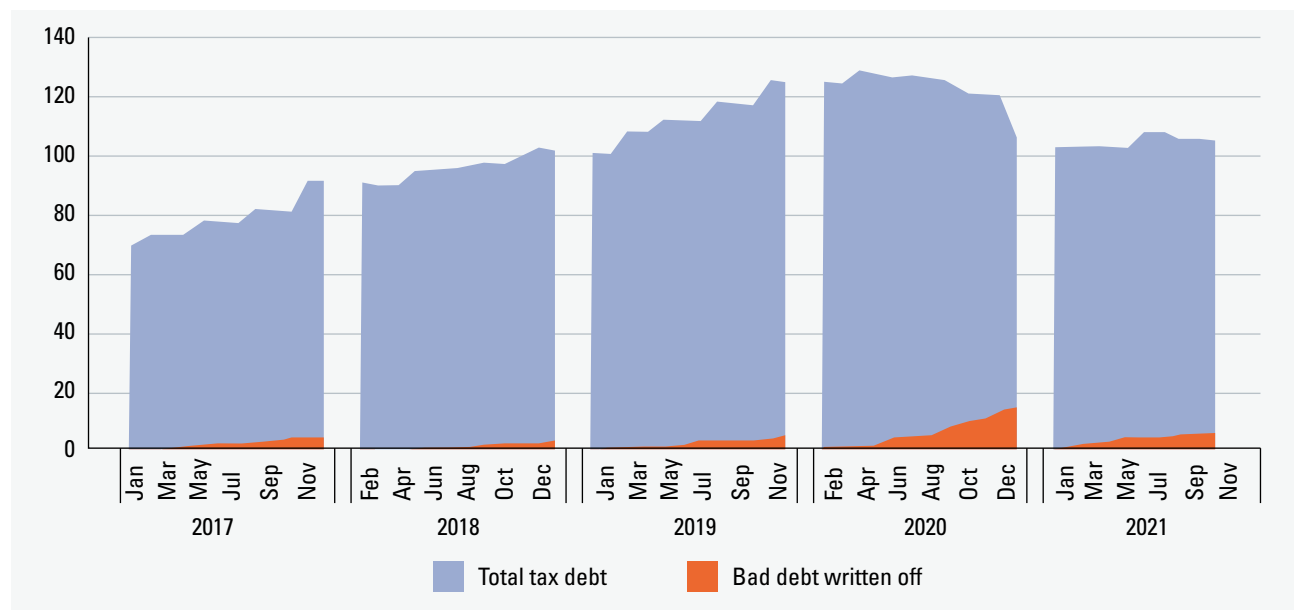
⁴⁵ Information on the quarterly data on the budget losses from tax benefits (by the types of taxes and levies). State Tax Service of Ukraine. <https://tax.gov.ua/datasets.php?d=DFS20180320174400>



Ukrainian hryvnias as of the beginning of 2017 up to 124.7 billion Ukrainian hryvnias as of the end of 2019, or by 79.1%. Growth of the tax debt by 14.6% outpaced the dynamics of growth of the consolidated budget tax proceeds for the equivalent period (64.6%).

During the quarantine connected with COVID-19, inconsiderable amounts of the tax debt were partly written off as financial support of the tax payers, which reduced it down to 102.8 billion Ukrainian hryvnias as of January 2021.

Figure 11: Dynamics of the tax debt and bad debt written off, billion UAH



Source: based on the data from the State Tax Service of Ukraine⁴⁶

The important role in the structure of revenues of the consolidated budget alongside with the tax proceeds is played by the **non-tax proceeds**. The main sources of the non-tax proceeds are some of the net profit (revenues) of the state or municipal unitary enterprises and associations thereof that is withdrawn to the respective budget, and dividends (revenues) accrued on the shares (stock) of the economic operators with the state or municipal interest in their authorised capitals (SNP), and the funds transferred by the National Bank of Ukraine pursuant to the Law of Ukraine "On the National Bank of Ukraine". The largest SNP proceeds are formed by the state monopolies and banks.

The other sources of non-tax proceeds are *administrative service charges* and *levies for the mandatory state pension insurance for the specific types of economic transactions*. The *administrative service charges* have lots of different sources.

The non-tax proceeds also include *proceeds from lease charges for using the asset group and other state property, court fee and proceeds from foreclosure for the benefit of the state, revenues from lending and guarantee transactions* etc.

The significant source of non-tax proceeds is *own proceeds of budget institutions* from payment for the services provided by the budget institutions in accordance with the law, and other sources of own proceeds of budget institutions. They are credited to the special fund of the state and local budgets.

The revenues of the consolidated budget together with the tax and non-tax proceeds also include revenues from capital transactions, official transfers from the European Union, governments of foreign states, international organisations and donor institutions, and targeted funds.

⁴⁶ Tax Debt Dynamics. State Tax Service of Ukraine. <https://tax.gov.ua/diyalnist-/pokazniki-roboti/dinamika-podatkovogo-borg>



4.3. Budget Expenditures

4.3.1. Expenditures of the Consolidated Budget of Ukraine

In Ukraine, expenditures of the State Budget are accounted based on three classifications: programme, functional and economic ones. However, the State Budget has a large number of programmes, some being duplicated by their goals, and some of the policies are dispersed between different programmes. The aggregate expenditures of the local budgets are reported based on the economic and functional classifications whereas expenditures of each individual community and region are also provided in terms of the programme classification. Therefore, the expenditures of the Consolidated budget are also reported based on two classifications only, the functional and the economic ones. Moreover, they include inter-budget transfers to avoid double taxation.

Expenditures are divided into current and capital ones in the economic classification. Most expenditures are current ones whereas capital expenditures from the Consolidated Budget remain low although they grew for the last three years and made around 11% of the aggregate expenditures of the Consolidated Budget or around 4% of the GDP in 2018-2020 (Figure 12). Current expenditures include both salaries in the public education, health care, public administration, defence and security sectors and expenditures to purchase goods and services. Current expenditures also include the transfer to the Pension Fund to pay pensions under different additional state programmes (beyond the designated pension payments within the mandatory pension insurance) and to cover the shortfall of the

Fund. In the structure of the current expenditures of the State Budget, the comparatively large share is service of the public-sector debt. However, it was decreased for the last few years (from 14.2% in 2016 down to 11.2% in 2019) owing to the fiscal consolidation, reduction of the cost of internal loans and growth of concessional loans from the IFIs and other international partners. Around 3% of the local budget expenditures are utilised to pay the utility services and energy carriers: in particular, the local authorities are responsible for the respective payments not only in administrative buildings, but also schools and municipal health care facilities. Therefore, the energy efficiency actions must be among the priorities of the authorities.

Since the budget classification does not have the classification code that would be consistent with the sustainable development goals, expert assessment of division of expenditures of the state and local budgets by the SDGs was performed.⁴⁷ The basis was functional classification of expenditures, and expenditures based on the programme classification were considered to the specific extent. Moreover, the division was associated with all the budget expenditures.

According to the experts, most expenditures pertain to SDG 16 "Peace, justice and strong institutions": in particular, these are security and defence expenditures that are mostly financed from the State Budget (Figure 13). The only sustainable development goal that has no financing according to the experts is SDG 13 "Climate action". It is generally connected with the fact that the national system for sustainable development goals sets only one task for this goal: "to reduce greenhouse gas emissions". Minor financing is provided to SDG 14 "Life below water".

⁴⁷ Assessment was based on the functional classification with account of the programme classification. The weights of expenditure division by different SDGs were determined by the experts.



SDG 1 “No poverty” and SDG 10 “Reduced inequalities”.

Implementation of these goals is financed by the numerous programmes for social aid to different populations as well as transfers to the Pension Fund. In 2020, financing of a number of social aid programmes was centralised at the level of the Ministry of Social Policy although they used to be financed with subventions from the State Budget to the local budgets (in the figure, these funds are considered as local budget expenditures). There was also monetisation of housing and utility subsidies. These factors explain reduction of the share of financing the respective programmes from the local budgets in 2020. At the same time, the social aid reform is still ahead since the system is inefficient, and social aid is often not granted to the poorest populations while the number of the legal state programmes for supporting different populations is extremely large although the programmes themselves are not fully financed.⁴⁸

SDG 2 “Zero hunger, development of agriculture”.

The government finances a number of the programmes to support agricultural producers from the State Budget. Following 2016, the format of supporting companies in the sector changed by replacing the special VAT payment scheme with direct budget transfers. In order to analyse the support programmes and improve their performance, the government resolved to perform the Overview of the State Budget Expenditures in the Agroindustrial Sector in 2019 in terms of financial support of actions in the agroindustrial complex by means of cheap loans.⁴⁹ The Overview on this Revision states that the state support programmes fail to consider gender aspects and to facilitate gender equality.⁵⁰ One of the conclusions made in the Overview is that existence of several support programmes “results in erosion of resources, duplication of decisions, complication of management and administration and, therefore, hinders efficient use thereof”. At the same time, the entire Overview is rather descriptive and does not contain the important assessment of performance of the programmes and their impact upon agricultural development. One of the

causes is use of descriptive, static and rather financial performance indicators that are specified in the data sheets of the respective budget programmes and in the laws and regulations on the applicable support.

SDG 3 “Good health and well-being”. For the last few years, the government increased the financing of health care and reformed the medical industry. In 2018, the National Health Service of Ukraine (NHSU) was created as the entity procuring medical services. The municipal health care facilities (HCF), which used to be budget institutions, were gradually reorganised as municipal non-profit enterprises (MNEs). In April 2018, the HCF of the primary medical aid level started contractual relations with the NHSU and got paid for the aid at the per capita rate per each patient who had the service declaration signed with the doctor in the respective facility. In April 2020, the respective changes affected the specialised level of medical aid. Before that, the principal source of health care financing had been the medical subvention from the State Budget to the local budgets. It explains the material reduction of the share of the local budgets in financing of SDG 3. At the same time, according to the BCU, the local authorities still finance capital expenditures, maintenance, development and utilities of the municipal HCF.

Financing of SDG 3 also includes financing of the state budget programme for road safety. It (financing of SDG 3) also incorporates some expenses for physical education and sports since they help reduce the death rate as a result of non-infectious diseases.

SDG 4 “Quality education”. The main source of financing of the secondary education is the education subvention from the State Budget to the local budgets (the figure shows it as financing from the local budgets). The educational subventions mostly cover salaries of the pedagogical staff whereas the local authorities finance maintenance, development and utility payments of schools as well as salaries of other school staff. The educational subvention has been growing for all the years due to

⁴⁸ Analysis of Performance of Legislative Social Aid Regulation in Ukraine for the Main Target Groups, KSE, July 2021, https://kse.ua/wp-content/uploads/2021/07/Sotsialni-dopomogi_doslidzhennya.pdf.

⁴⁹ <https://zakon.rada.gov.ua/laws/show/211-2019-%D1%80#Text>

⁵⁰ The text of the report is available at: <https://bit.ly/3Bw5icb>



the increase in the teachers' work pay. There is a number of smaller subventions to finance the budget programmes "Capable school for better results" and "New Ukrainian school", the purpose of which is to improve the quality of school education. The local authorities finance vocational and pre-school educational establishments owned by the respective community. The governmental order in higher educational establishments is financed from the State Budget. The financing of education was reduced in 2020, probably as a result of the impact of Covid-19, when the local authorities faced a decline in revenues against the need to increase health care financing, while a number of subventions from the State Budget were reduced during the revision of the State Budget for 2020 to consider the need to finance the anti-crisis actions.

SDG 5 "Gender equality". A number of programmes for social aid to the vulnerable populations as well as aid to mothers are consistent with the tasks of Goal 5. Thorough analysis based on the programme classification could probably help determine more funds to finance this goal since gender aspects must be considered in budgeting. At the same time, the budget owners rather determine certain gender-based performance indicators of the programmes, but they do not specify the financing amounts that could pertain to Goal 5 more accurately.

Goal 6 "Clean water and sanitation". The expenditures to finance water supply, waste water disposal, improvement of water use performance and reduction of untreated waste waters are low at the level of the state and local budgets. At the same time, the relatively large share of expenditures is financed from the local budgets. In 2019 and 2020, the State Budget did not spend a single hryvnia to implement the National Special-Purpose Programme "Drinking Water of Ukraine". At the same time, this industry requires material investment into upgrade and better performance.

Goal 7 "Affordable and clean energy". According to the experts, the energy efficiency improvement tasks are mostly financed from the State Budget. The budget programmes of "warm loans" and such tool as the Energy Efficiency Fund are important. However, the Fund was

not financed in 2020 whereas the programme of "warm loans" was not included into the budget financing for 2022. Moreover, the government stimulates development of the green energy by introducing the green tariff for the green electric power produced.

Goal 8 "Decent work and economic growth". Financing of this goal includes the share of expenditures in the area "Economic activity" since the purpose of these expenditures is to encourage creation of jobs, to ensure timely work pay (namely, at the mines) and to support economic growth.

SDG 9 "Industry, innovation and infrastructure". In 2020, financing of the budget programmes in connection with this goal grew rapidly. In the first place, that was construction of roads and other infrastructural facilities within the programme "Large Construction" initiated by the President of Ukraine. Thus, financing of road repairs and construction grew considerably and become the largest item of expenditures in the Anti-Covid-19 Fund established within the budget. The Fund was initially established to finance the capacity of the health care sector to fight the pandemic, but lots of funds were ultimately aimed at the roads.

This goal also includes some of the expenditures for other items within the function "Economic activity" in the area of support of the manufacturing industry, transport etc.

SDG 11 "Sustainable cities and communities". The main source of financing of regional development is a number of subventions from the state and local budgets. One of the tasks of Goal 11 is to improve housing affordability: this task is financed from the local and state budgets. According to the tasks of SDG 11, the local authorities develop regional development strategies although some of the communities still have not performed this task. Such programmes are developed by the communities themselves and by means of the international technical assistance (ITA) projects. The level of financing of the housing and utility facilities remains low although this sector needs more investment.

Neither the State Budget nor the local budgets allocate adequate funds to finance the



environmental sustainable development goals, including Goal 12 “Responsible consumption and production”, Goal 13 “Climate action”, Goal 14 “Life below water”, and Goal 15 “Life on land”. It can be connected with lack of priorities for applicable items of expenditures in comparison with the others as well as the attempt to raise other sources of financing to implement the goals. In particular, that is public-private partnership and concession.

SDG 16 “Peace, justice and strong institutions”.

In general, this item gets most expenditures and it includes a large scope of expenditures for national functions as well as security and defence. According to the effective laws, the expenditures for security and defence shall be at least 5% of the GDP, which is, without limitation, associated with the need to have the strong army to counteract the armed aggression by Russia in the east of Ukraine and annexation of Crimea by Russia. It also includes expenditures for the activity of anti-corruption authorities because this goal is associated with the task of anti-corruption and courts.

SDG 17 “Partnerships for the goals”. Financing of this goal includes, without limitation, debt service expenditures: in the first place, it is the public-sector debt since the local debt remains low (see Section 4.4).

At the same time, it should be noted that more substantiated division of budget financing by the sustainable development goals requires analysis of expenditures based on each programme whose performance and financial indicators must incorporate the SDG indicators. Therefore, there could be certain sub-classification or codification of budget programmes by the SDGs. Inclusion of the SDG indicators into the performance indicators will help assess performance of programme financing and their impact upon achievement of the important sustainable development goals.

Sub-section 4.3.2 considers the budget programme, the State Fund for Regional Development, established to finance community development in more detail. The government and local budgets set the priorities of project financing at the expense of this budget programme with account of the sustainable development goals of priority, or develop the tools that can be used to mobilise financing from other sources.

4.3.2. State Fund for Regional Development

According to the Budget Code, one of the sources to finance development in the regions in pursuance of the investment programmes and regional development projects is the State Fund for Regional Development (SFRD). The applicable programmes and projects are supposed to facilitate development of the regions and meet the priorities set by the State Regional Development Strategy and respective regional development strategies.

The SFRD operates as a part of the State Budget in form of the budget programme of the Ministry of Regions.⁵¹ Pursuant to the BCU, the SFRD shall make at least 1% of the revenues of the general fund of the State Budget for the respective year. However, it never reaches this amount in practice. Thus, in 2016-2018 (as proposed by the government) and in 2019-2020 (during the budgeting in the parliament and drafting of the State Budget for the second reading)⁵², some of the SFRD financing was redistributed in favour of non-transparent and politically prejudiced financing of social and economic subventions.⁵³ The so called “social and economic element” is distributed to the districts of the majority deputies, and most funds are often received by the representatives of the pro-government party.

The procedure for preparation, assessment and selection of investment programmes and regional development programmes is

⁵¹ Article 24-1 of the Budget Code of Ukraine, <https://zakon.rada.gov.ua/laws/show/2456-17#Text>

⁵² The subvention used to be stipulated in the initial draft Budget submitted by the government to the parliament.

⁵³ In particular, there are several analyses that show that the subventions for social and economic development are distributed non-transparently, based on the politically reasoned decisions, rather than pursuant to clear and transparent development criteria and priorities. In particular, see <https://www.oporaua.org/news/parliament/22813-neformalni-deputatski-fondi-povertaiutsia-za-koshti-platnikiv-podatkov>



determined by the CMU.⁵⁴ The RSA as well as Kyiv and Sevastopol City State Administrations establish regional commissions to select applications. The commission members may be representatives of the establishing authority, the local self-government authorities, territorial bodies of the central executive authorities, regional departments of the Ukrainian associations of the local self-government authorities, scientific, other institutions and public associations. Applications can be submitted by the executive authorities, local self-government authorities and regional development agencies.

At the next stage, the regional commission selects the applications to be transferred to the Ministry of Regions that establishes the commission. The Commission shall have at least 50% of the members of the Budget Committee of the Verkhovna Rada of Ukraine. In the end, the project funds are distributed by the decision of the CMU in consultation with the Budget Committee of the Verkhovna Rada. Moreover, according to the BCU, the SFRD funds are allocated based on the following criteria to ensure balanced financing of regional development:

- 80% of funds – based on the quantity of the population residing in the respective region;
- 20% of funds – with account of the social and economic development level of the regions pursuant to the gross regional product per capita (for the regions where this indicator is less than 75% of the average indicator in Ukraine).

The important thing is that the projects considered by the Commission must have 10% of co-financing from the local budgets. It increases the interest of the local authorities in transparent selection and efficient introduction of the investment projects. Also, selection of the projects must consider stability of financing of the respective facilities for which SFRD financing is used. At the same time, the experience shows that these requirements are not always met.

Before 2020, one of the problems in project financing from the SFRD was the term for the Ministry of Regions to submit the project list to be approved by the Cabinet of Ministers by 1 August, i.e. before approval of the draft State Budget. In 2020, the new term was introduced: by 15 December.⁵⁵ Another problem is material dispersal of the SFRD funds at the regional level for various projects, which results in long-term projects: the share of such projects is estimated to be 60%, as well as in financing of the projects inconsistent with the State Regional Development Strategy. In order to avoid long-term projects and financing problems, the procedure for distribution of the SFRD funds is going to be changed: 50% of all the funds are proposed to be allocated for the projects of national significance in pursuance of the State Regional Development Strategy until 2027. However, the respective draft law still has not been adopted.⁵⁶ The funds can be used to finance the projects with the value of at least one million Ukrainian hryvnias although around 30% of the projects actually “cost” less than a million.⁵⁷ Another problem is certain politicisation of distribution of the SFRD funds, which probably results from the people’s deputies’ participation in consideration of the SFRD projects. It causes populism and unequal distribution of the SFRD funds and results in dispersal of the funds. It should also be noted that still there are no general rules for allocating the SFRD funds by the economic sectors and territories.⁵⁸

In general, the SFRD financing in 2016-2020 made 19.4 billion Ukrainian hryvnias (Figure 14). In 2021, out of 4.5 billion Ukrainian hryvnias allocated to finance the SFRD, 4.3 billion Ukrainian hryvnias had been distributed as of June. As of the end of 2021, some of the regions still had undistributed funds, which bears a risk of under-utilisation of development funds because of the mere lack of time to select projects and conduct bidding procedures.

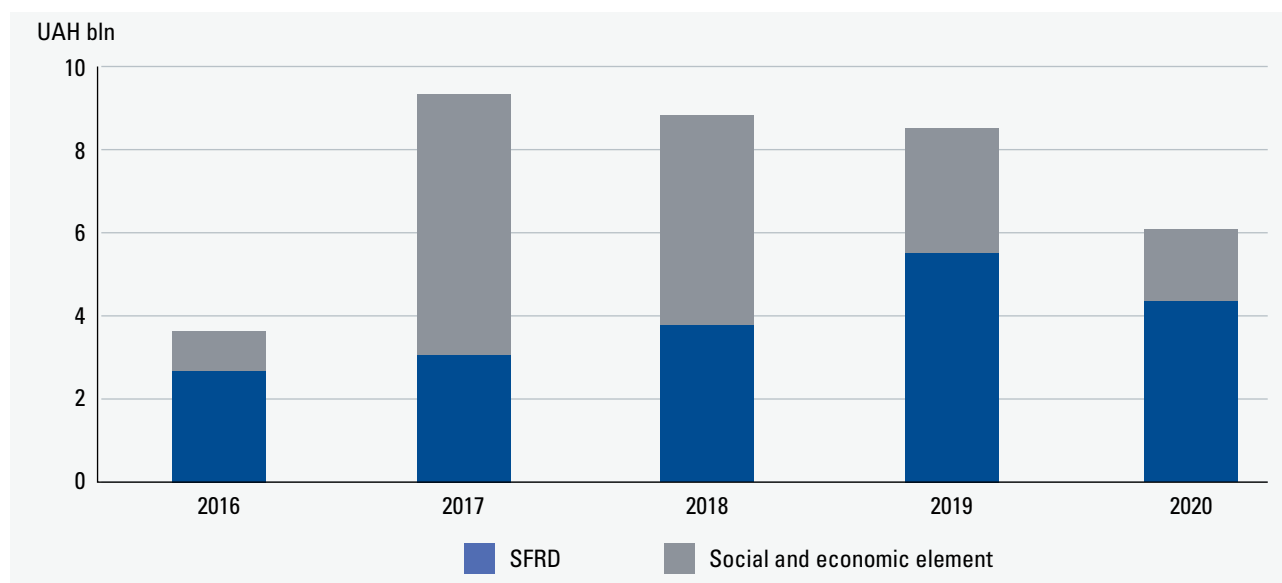
⁵⁴ <https://zakon.rada.gov.ua/laws/show/196-2015-%D0%BF#Text>

⁵⁵ Denys Shmyhal: SFRD Reforms Provides for New Principles of Project Financing, <https://www.kmu.gov.ua/news/denis-shmygal-reforma-dfr-peredbachaye-finansuvannya-proektiv-za-novim-principom>

⁵⁶ Draft Law on Amending the Budget Code of Ukraine to Improve Performance of Funds of the State Fund for Regional Development http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?id=&pf3511=70149

⁵⁷ How the State Fund for Regional Development Is Distributed. OPORA Study, <https://www.oporaua.org/news/parliament/subventsii/19519-ia-vidbuvaietsia-rozpodil-koshtiv-derzhavnogo-fondu-regionalnogo-rozvitku-doslidzhennia-opori>

⁵⁸ How the State Fund for Regional Development Is Distributed. OPORA Study, <https://www.oporaua.org/news/parliament/subventsii/19519-ia-vidbuvaietsia-rozpodil-koshtiv-derzhavnogo-fondu-regionalnogo-rozvitku-doslidzhennia-opori>

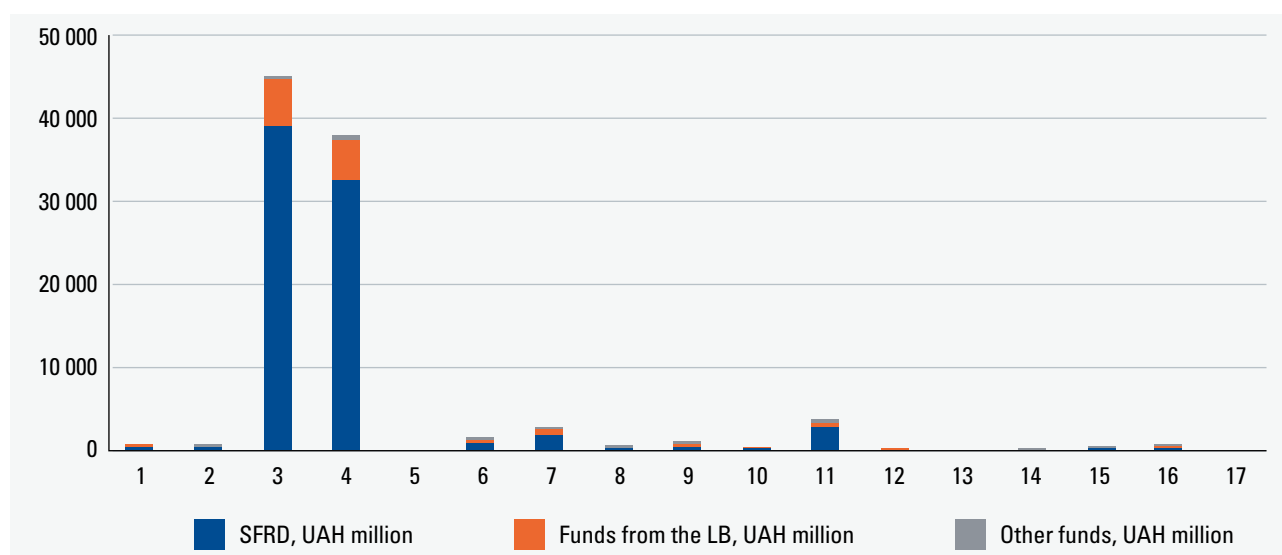
**Figure 14: SFRD financing**

Source: STSU

The same as in the previous year, the requirement of the Budget Code for the SFRD financing in the amount of 1% of the total revenues of the State Budget of Ukraine was not met in 2021. In 2021, it was supposed to be 9.3 billion Ukrainian hryvnias, but the approved amount of the SFRD for 2021 made only 4.5 billion Ukrainian hryvnias. During the approval of

the State Budget, some of the funds were traditionally redistributed for the subvention for social and economic development of the territories.

Figure 15 shows the expert assessment of conformity of the projects financed from the SFRD to the sustainable development goals.

Figure 15: Projects financed from the SFRD, by the SDGs

Note: see the annual financing in Annex 11.3

Source: State Fund for Reconstruction and Development⁵⁹, own calculations

According to the assessment the financing is unequally distributed by the SDGs. In this case, most financing is provided for the projects that

could be financed from the other sources, like revenues of the local budgets. For instance, most financing is obtained by Goal 4 "Quality

⁵⁹ <https://dfr.minregion.gov.ua/>



education”, but these projects are related to construction and redecoration of schools in the first place and are indirectly consistent with the priorities of the State Regional Strategy until 2020. A large share of financing also applies to such SDGs as: Goal 7 “Affordable and clean energy”. In particular, it includes repairs and construction of gas pipes, heating boiler houses, winterising (thermal upgrade) of façades and attics of schools, kindergartens, hospitals and other facilities. Goal 3 “Good health and well-being”, which mostly includes redecoration of hospital buildings and procurement of medical equipment, construction of swimming pools and sports grounds. Implementation of Goal 11 “Sustainable cities and communities” provides for improvement of parks and streets, road repairs, development of tourism, urban development documents as well as redecoration and development of museums.

In general, the projects with the largest financing are major repairs of schools and hospitals. The most expensive projects include construction of water pipes, water treatment facilities, and gas pipes. The projects financed by the SFRD are generally consistent with the goals and tasks of the fund. At the same time, the considerable problem of reduction and shortage of financing of this fund in 2021.

In general, financing of the projects within the SFRD budget programme is found to be quite transparent and efficient. The information on the projects financed at the expense of the SFRD is presented on the respective website. At the same time, the SFRD financing is materially reduced every year, between two readings of the draft law on the State Budget, below the level prescribed by the Budget Code. Such financing is redistributed in favour of another development finance tool at the expense of the State Budget: subvention for social and economic development (so called “social and economic element”). Thus, in 2021, 1.67 billion Ukrainian hryvnias were allocated for those subventions (Figure 14). However, this tool has a considerable number of defects in comparison with the SFRD. The principal defects include the key influence by the people’s deputies in general and the deputies on the Budget Committee in

particular on the decisions made as to distribution of subventions by the Budget Committee. However, the representatives of the Ministry of Regions practically take no part in the process.⁶⁰ Therefore, the expert analysis of distribution of financing for the social and economic element shows that the applicable subventions are distributed for the benefit of districts of the pro-government majority deputies. The other defects are non-transparency of activities of the Committee that submits projects, lack of criteria to accept and reject the projects, the high-level of political influence on the subvention decision making. Moreover, the funds of the State Budget, which should be consolidated into the uniform programme for financing of regional development, the SFRD, are dispersed.

4.3.3. Public Investment Projects

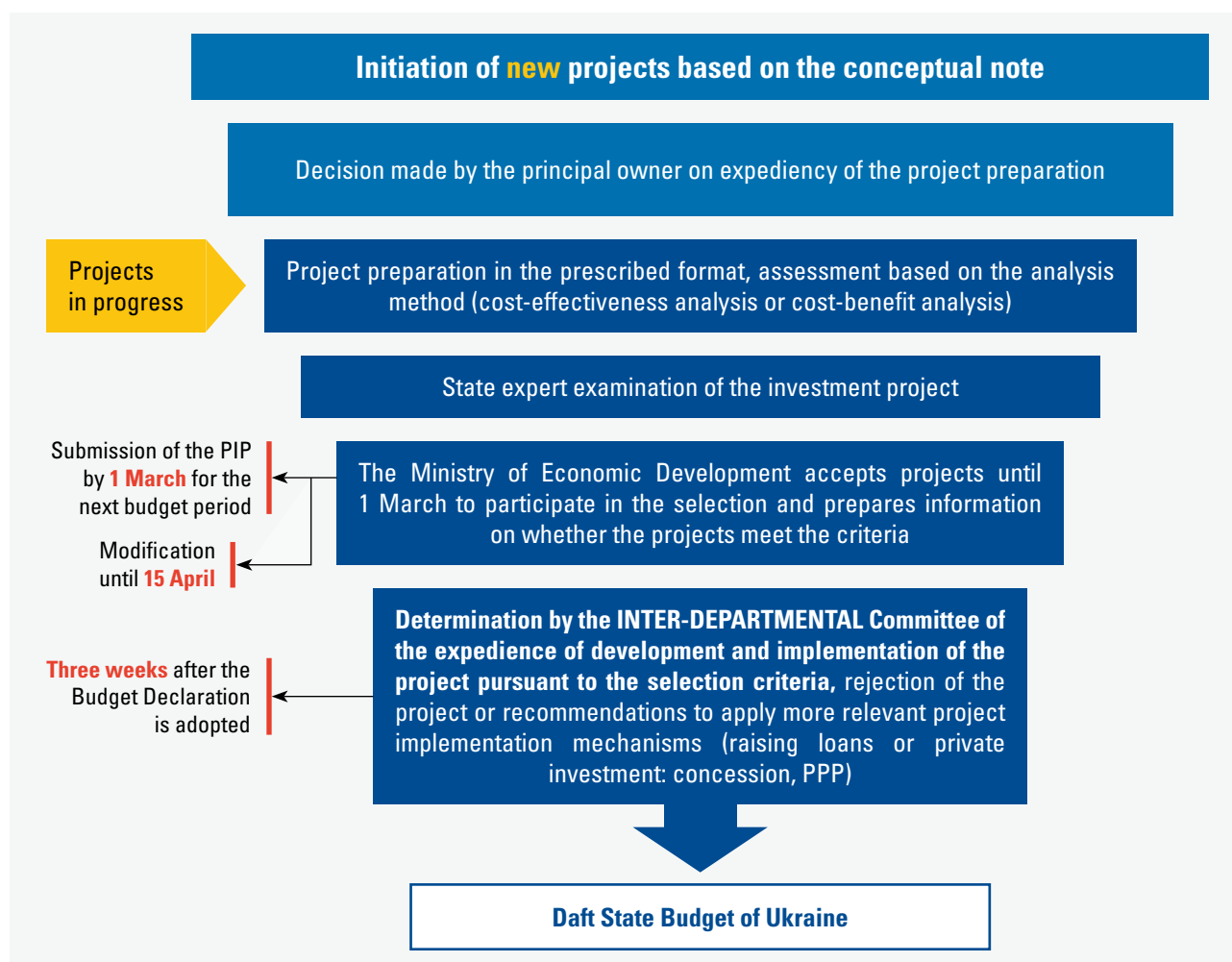
Public investment projects are an important development tool at the expense of the State Budget. These projects are performed at the expense of the State Budget and do not include financing from the SFRD and IFI loans. According to the BCU (Article 33-1), the scope of capital investment into implementation of investment projects shall be specified in the Budget Declaration whereas selection is effected by the Inter-Departmental Committee on Public Investment Projects based on the proposals of the Ministry of Economy regarding distribution of the respective funds among the PBOs.

In general, the projects development and approval procedure has the following elements: identification of the need and preparation of the project, expert examination, selection, implementation and monitoring of implementation (Figure 16). The procedure for development and approval of public investment projects is governed by Resolution of the CMU No. 571 “Some Issues of Public Investment Management” (see Annex 11.4).⁶¹ The Inter-Departmental Committee on Public Investment Projects is chaired by the Ministry of Economy, and its members are the key ministers of linear ministries, the Minister of Finance as well as members of the Budget Committee of the Verkhovna Rada of Ukraine (by consent).

⁶⁰ <https://www.oporaua.org/report/parliament/23199-ia-kabmin-rozpodiliv-bilshe-1-6-miliardiv-griven-na-subventsiyi>

⁶¹ Resolution of the CMU “Some Issues of Public Investment Management”, No. 571, dated 22 July 2015 (as amended and supplemented), <https://zakon.rada.gov.ua/laws/show/571-2015-%D0%BF#Text>

Figure 16: Procedure for selecting public investment projects

Source: Ministry of Economy⁶²

The public investment projects are financed in the following directions⁶³:

1. Health care
2. Social and cultural sector
3. Sports sector
4. Education
5. Environmental protection
6. Transport infrastructure
7. Operations of the authorities and their services
8. Production of rocket and space equipment
9. Fuel and energy sector

These areas can be indirectly defined as the ones that are consistent with the SDGs to a certain extent. These areas are also the priorities of the national policy set by the Resolution of the CMU.⁶⁴

The expert division of the planned and actual financing of the investment by the SDGs in 2020 is presented in Figures 17 and 18.

According to the data above, the most financed goals are Goals 9, 3 and 11. Moreover, although the planned financing of the projects that pertain to SDG 9 according to the experts is the largest, the projects that pertain to Goals 3 and 11 actually have the biggest financing.

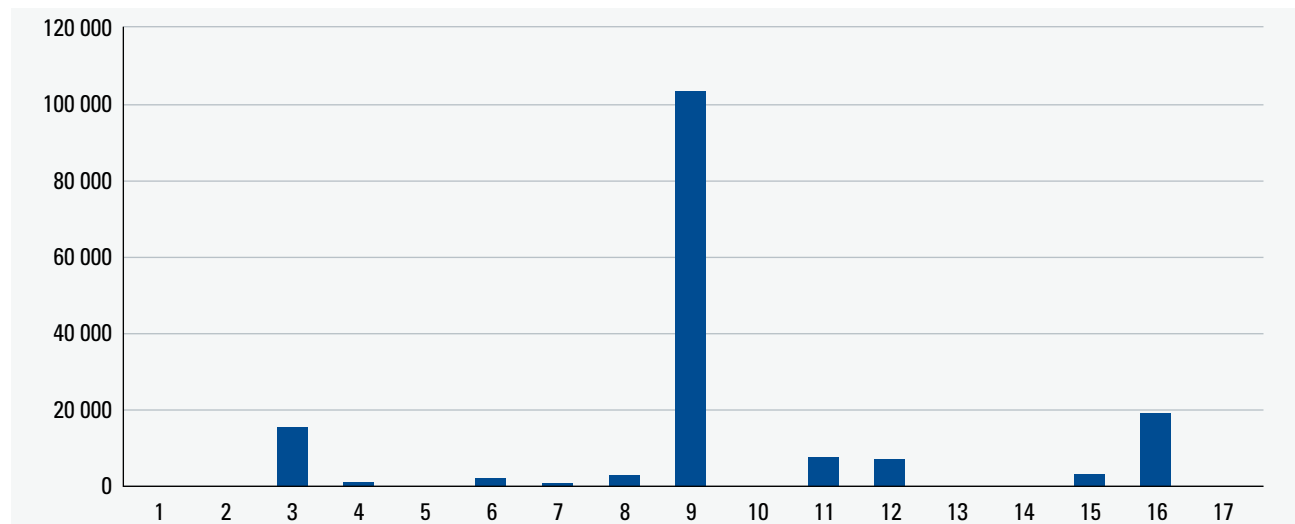
⁶² Assessment and Selection of Public Investment Projects <https://www.me.gov.ua/Documents/Download?id=f4afc367-c788-438b-b14e-bb2f541a5747>

⁶³ List of Public Investment Projects <https://www.me.gov.ua/Documents/Download?id=b64ca58d-c988-4665-8803-72263e01928e>

⁶⁴ Resolution of the CMU dated 22 July 2015 No. 571, "Some Issues of Public Investment Management" <https://zakon.rada.gov.ua/laws/show/571-2015-%D0%BFraran153#n153>



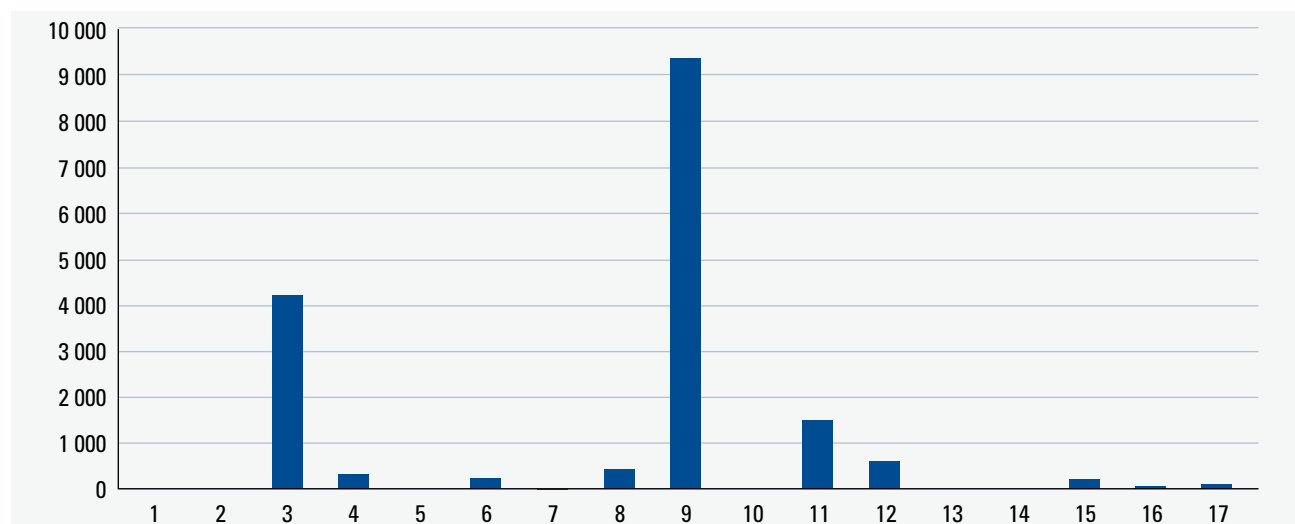
Figure 17: Planned financing of the public investment projects by the SDGs, million UAH



Note: the horizontal scale shows the SDGs

Source: Ministry of Economy⁶⁵

Figure 18: Actual financing of the public investment projects by the SDGs, million UAH



Source: Ministry of Economy

The largest investment projects that, according to the experts, conform to financing of **SDG 9 "Industry, innovation and infrastructure"** have been development of the motor road H-31 Dnipro-Tsarychanka-Kobeliaky-Reshetylivka (as of 01.01.2020, 3.9 billion Ukrainian hryvnias were actually financed), construction of the motor road across the Dnipro in Zaporizhzhia (motor road H-08 Boryspil-Dnipro-Zaporizhzhia-Mariupol as of 01.01.2020 was actually financed in the amount of 2.891 billion Ukrainian hryvnias) as well as improvement of the public motor roads in Lviv Region (as of 01.01.2020, 1.67 billion Ukrainian hryvnias were financed).

As for **SDG 3 "Good health and well-being"**, the largest projects are estimated to be construction of the modern therapeutic and diagnostic complex of the National Children's Specialised Hospital "Okhmatdyt" (as of 01.01.2020, the project was actually financed in the amount of 3.024 billion Ukrainian hryvnias), construction of the therapeutic and rehabilitation building of the SI "M. M. Amosov National Institute for Cardiovascular Surgery of the National Academy of Medical Sciences of Ukraine" (as of the beginning of 2020, the project was actually financed in the amount of 227 million Ukrainian hryvnias), and the projects of restoration, rehabilitation and adaptation of clinical building No. 3 of the

⁶⁵ <https://www.me.gov.ua/Documents/Download?id=b64ca58d-c988-4665-8803-72263e01928e>



SI “Academician A. P. Romodanov Neurosurgery Institute of the National Academy of Medical Sciences of Ukraine,” which was actually financed in the amount of 190 million Ukrainian hryvnias. However, the planned allocation of project financing was somewhat different.

According to the experts, the biggest financing was provided to the projects pertaining to **SDG 11 “Sustainable cities and communities”**, namely restoration and adaptation of the Mariinskyi Palace in Kyiv (that project was actually financed in the amount of 922 million Ukrainian hryvnias) as well as the project to create the Mystetskyi Arsenal National Art and Culture Museum Complex

in Kyiv (financed in the amount of 445 million Ukrainian hryvnias). In this regard, one should also mention improvement of the thermal insulation properties of the building of the State Enterprise “Kharkiv State Academic Opera and Ballet Theatre named after M. V. Lysenko,” the heating, air conditioning and ventilation systems with the value of 30 million Ukrainian hryvnias.

One of the defects of the procedure for allocating financing for the investment projects is lack of information on assessment of costs and benefits of the projects. Moreover, most of the projects can be referred to the category of the ones with no return on investment.

4.4. Public-Sector and Local Debt

4.4.1. Public Loans

One of the development finance sources is public loans. This section overviews the budget shortfall as well as the public-sector debt and government-backed debt. Section 5.2 contains the detailed analysis of development finance at the expense of concessional loans from international financial institutions, which are most often granted to the government of Ukraine, as well as expert opinion on division of the respective social and economic development projects by the sustainable development goals.

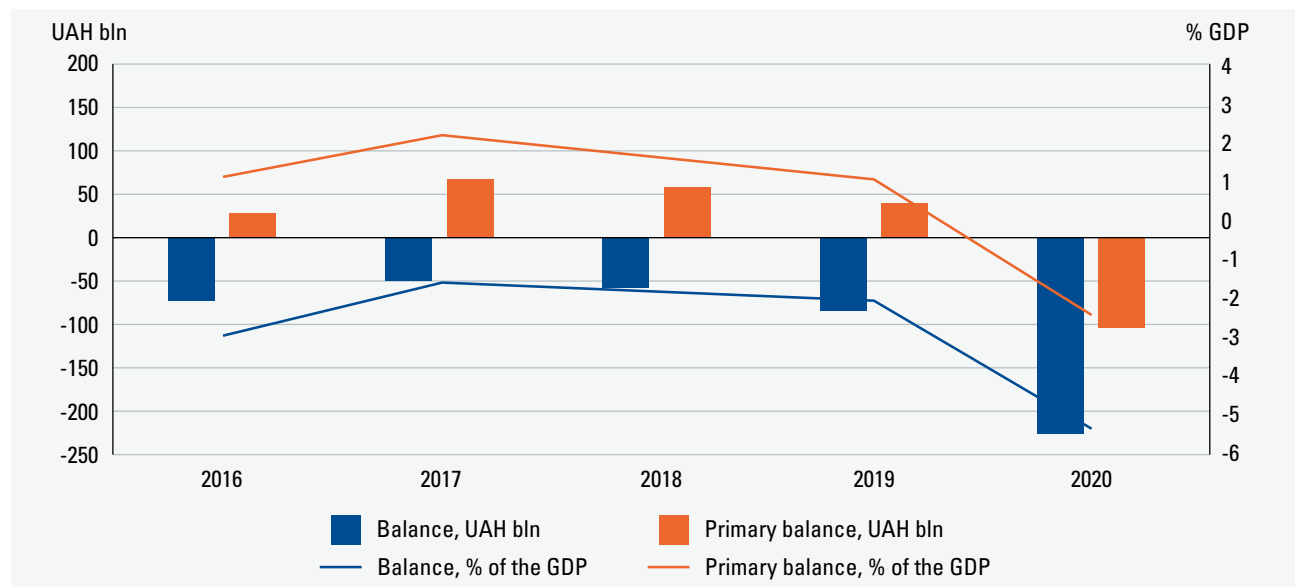
In Ukraine, the State Budget is consolidated with the shortfall, which is financed with the loans in the first place, whereas proceeds from privatisation remain low despite the considerable potential of privatisation revenues, due to the large number of state enterprises (SEs). According to the BCU, public loans are obtained within the limits set by the law on the State Budget of Ukraine. In particular, the state can raise funds from several sources (Article 16), namely:

- issue of domestic government loan bonds (DGLB),
- issue of foreign government loan bonds (FGLB), Eurobonds,
- loans (credits) from foreign states, foreign financial institutions and international financial institutions.

The Cabinet of Ministers can also resolve to give government guarantees for the loans of the economic operators being residents of Ukraine, including to ensure partial performance of debt obligations under the loan portfolio of the lending banks, within the framework prescribed by the law on the State Budget. In general, according to the BCU, the maximum volume of the government guarantees cannot exceed 3% of the planned revenues of the general fund of the State Budget. It is also prescribed by the BCU that the total volume of the public-sector debt and the government-backed debt as of the end of the budget period cannot exceed 60% of the annual nominal GDP of Ukraine. The clauses on limitation of the guarantees and debt were suspended in 2020 and 2021 given the need to allocate funds to fight Covid-19.

In 2016-2019, the government implemented the fiscal consolidation policy and reduced the budget shortfall by ensuring the primary net surplus of the⁶⁶ State Budget (Figure 19). That policy resulted in reduction of the public-sector debt and the government-backed debt down to the safe level at the end of 2019. That policy enabled the government to increase the shortfall and, therefore, the public-sector debt in 2020 in order to finance the actions to fight Covid-19 and support the economic activity. The shortfall made 5.2% of the GDP in 2020.

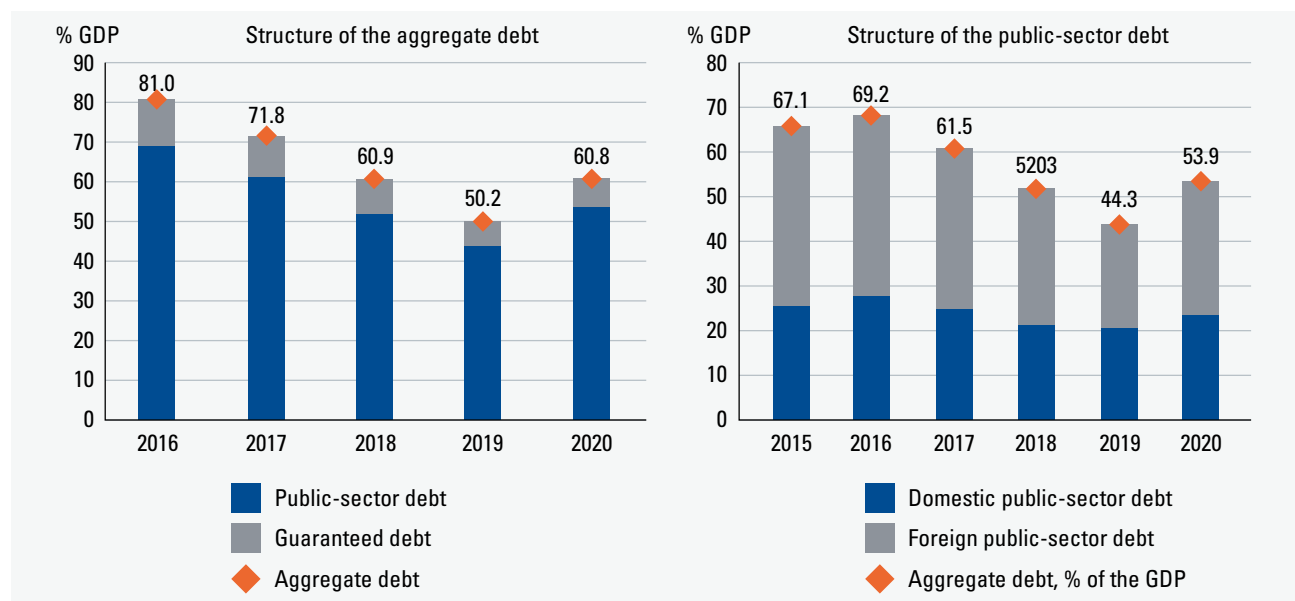
⁶⁶ The primary balance of the budget equals the total shortfall of the budget less the expenditures for interest on the debt.

**Figure 19: Balance of the State Budget**

Source: STSU

The shortfall is financed by the government year by year at the expense of domestic and foreign loans in the first place (Figure 20). The internal source of the loans is issue of the DGLB, which are mostly issued in UAH although some of them are denominated in EUR and USD. In 2019, the important buyer of the DGLB were the non-residents, which was facilitated by the fact

that Ukraine had joined the international central depository Clearstream. In 2020, they reduced the purchase of the DGLB due to the high level of uncertainty, but the Ukrainian banks and citizens increased their investment into the DGLB. The sources of foreign loans are issue of Eurobonds as well as funds granted by the IFIs and other international donors (see Section 5).

Figure 20: Public-sector debt and government-backed debt

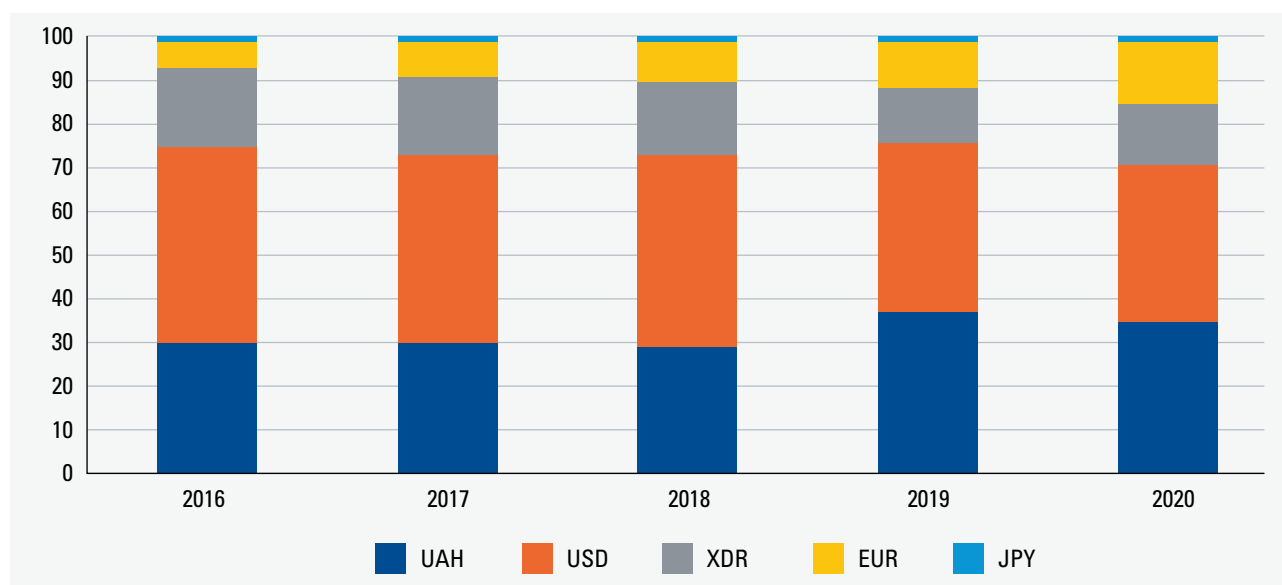
Source: Ministry of Finance

The share of UAH loans was somewhat increased during the fiscal consolidation in 2017-2019 and implementation of the Public-Sector Debt Management Strategy (Figure 21). Nevertheless, the debt situation

is susceptible for forex shocks since a large share of the debt is denominated in the foreign currency. In 2020, the public-sector and guaranteed debt were close to the maximum of 60% of the GDP.



Figure 21: Forex structure of the public-sector debt and government-backed debt, %



Source: Ministry of Finance

In general, Ukraine implemented quite the efficient public-sector debt management policy for the last few years and managed to reduce the debt before the coronacrisis, which facilitate the financial stability during the crisis. However, the debt remains susceptible to the forex shocks, so the government should keep shifting the focus on the UAH loans and fulfilling its obligations to the international partners in order to have stable access to the beneficial (concession) financing. The latter is of extreme importance with account of the high share of the expenditures that are already used to service the debt (which is mentioned in Section 4.3.1).

4.4.2. Local Borrowing

Information on local loans is limited to a certain extent. Moreover, it should be noted that the local authorities may obtain loans only to finance the development budget. As of the end of the second quarter of 2021, the local debt made 23.1 billion Ukrainian hryvnias, including 19.5 billion Ukrainian hryvnias pertinent to the domestic debt. The debt guaranteed by the local authorities made 8.3 billion Ukrainian hryvnias, including only 1.3 billion Ukrainian hryvnias pertinent to the loans at the domestic market.

Funds from the local loans are credited to the development budget of the respective community and used only for construction, reconstruction and restoration of the production, communication and social infrastructural facilities. Expenditures to service local loans may not exceed 10% of expenses of the general fund of the budget during any budget period during which the local debt is planned to be repaid.

According to the BCU (Article 16), there are the following rules for issuing local bonds:

- the Verkhovna Rada of the Autonomous Republic of Crimea, regional and city councils may obtain local domestic loans;
- the Verkhovna Rada of the Autonomous Republic of Crimea, regional and all city councils may obtain foreign loans as loans (credits) from the international financial institutions (IFIs);
- the Verkhovna Rada of the Autonomous Republic of Crimea, Kyiv and Sevastopol City Councils, city councils of the city territorial communities with the administrative centre in the city of regional significance may obtain other local foreign loans.

Quite few local authorities use local domestic bonds as a source to finance development.⁶⁷ According to the National Securities and Stock Market Commission (NSSMC), in 2016-2020,

⁶⁷ The data demonstrate that the issue of the local bonds peaked in 2007 and 2012.



only four city councils raised funds to finance development by issuing municipal bonds at the domestic market⁶⁸:

- The Lviv City Council issued bonds in 2018 with the maturity date in 2021 (440 million Ukrainian hryvnias), in 2019 with the maturity date in 2022 (300 million Ukrainian hryvnias), and in 2020 with the maturity date in 2025 (900 million Ukrainian hryvnias).
- The Ivano-Frankivsk City Council placed three issues in 2018 with the maturity date in 2019, 2020 and 2021 accordingly (100 million Ukrainian hryvnias each).
- The Kharkiv City Council issued bonds in 2019 with the maturity date in 2022 (500 million Ukrainian hryvnias) and in 2020 with the maturity date in 2023 (1.5 billion Ukrainian hryvnias).
- The Kyiv City Council issued bonds in November 2021 for the amount of 300 million Ukrainian hryvnias, with the maturity date in 2024, and is going to borrow other 800 million Ukrainian hryvnias by the end of the year.⁶⁹

The rate for the local bonds issued in 2018-2019 made 17-18%. At the same time, the bonds issued by the Lviv and Kharkiv City councils have the rate set as the refinancing rate plus specific margin (2.5-5 percentage points).

It must be noted that the NBU included a number of bonds of Ivano-Frankivsk, Kharkiv and

Lviv Regions into the collateral pool for the refinancing operations and permitted use thereof for the banks to conduct REPO transactions with the regulatory authority.⁷⁰ The same decision was probably made regarding the Kyiv municipal bonds. The decision of the NBU resulted in higher demand for these bonds among the banks. It should be noted that the DGLB can be of more interest for individuals. Thus, revenues from the DGLB are exempted from tax assessment whereas an individual will have to pay 18% of the IIT and 1.5% of the military tax on revenues from the municipal bonds.

No municipal foreign bonds were issued in 2016-2021. In 2015, the CMU resolved to transfer the local debt of the Kyiv City Council under the local foreign loans as of 2005 and 2011 to the public-sector debt.⁷¹

The local budgets can also raise funds as domestic loans from banks and foreign loans from the IFIs. The government shall not be liable for debt obligations of the territorial communities unless government guarantees for such loans have been given. Some of the social and economic development projects are financed with the domestic loan from the Ministry of Finance since the state is a borrower of the IFI funds for implementation of a number of the projects in several communities. In general, the local budgets were consolidated with the surplus in 2016 and 2017 whereas the shortfall in the following years was minor (Table 1).

Table 1: Local loans and local guarantees

	Local borrowing			Local guarantees		Local budget balance	
	UAH bln	EUR mln	USD mln	EUR mln	USD mln	UAH bln	% GDP
2016	2.0					15.4	0.65
2017	1.1	4.0		48.5		5.8	0.19
2018	3.0	46.4	115.1	76.5	10.0	-8.5	-0.24
2019	4.0	61.6		207.8	13.0	-6.3	-0.16
2020	8.3	28.0		248.2		-6.8	-0.16

Source: Ministry of Finance⁷²

⁶⁸ <https://www.nssmc.gov.ua/>

⁶⁹ https://kyivcity.gov.ua/npa/pro_zdiysnennya_zapozichennya_u_2021_rotsi_440276/xahedkscoz_15291570/

⁷⁰ <https://bank.gov.ua/ua/markets/ovdp/documents>

⁷¹ Resolution of the CMU dated 18 December 2015 No. 1040, <https://zakon.rada.gov.ua/laws/show/1040-2015-%D0%BF#Text>

⁷² <https://mof.gov.ua/uk/miscevij-borg-ta-miscevij-garantovanij-borg>



The Verkhovna Rada of the Autonomous Republic of Crimea and city councils can also give their local guarantees to ensure full or partial fulfilment of the debt obligations of the economic operators being residents of Ukraine that pertain to the municipal sector of economy, are located in the respective territory and implement the investment projects aimed at development of the municipal infrastructure or introduction of the resource-efficient technologies in that territory. The data demonstrate that the local guarantees are given by many local authorities, in the first place, for the loans granted by the IFIs to finance the social and economic development projects. The scope of and conditions for local loans and local guarantees are approved by the Ministry of Finance.

The maximum scope of the local debt and the maximum scope of local guarantees are set for each budget period by the resolution on the local budget by the respective representative authority. At the same time, the total scope of the local debt and the debt guaranteed by the Autonomous Republic of Crimea, the regional council or territorial community of the city (without account of the guarantee obligations arising out of the IFI loans as of the end of the budget) may not exceed 200% (400% for Kyiv) of the average annual forecast proceeds of the development budget (without account of the local loans and capital transfers (subventions) from the other budgets) calculated pursuant to the indicators for two budget periods following the planned one in the respective estimated local budget.

4.5. Budget Monitoring and Fiscal Transparency

Due to the limited budget financing and major demand for funds to perform the tasks within all the sustainable development goals in general, it is important to facilitate efficient utilisation of the available funds of the state and local budgets. It is ensured by efficient budget monitoring and control as well as fiscal transparency.

According to the BCU, budget control is exercised at all the stages of the budget process by its participants. It includes assessment of budget funds management, adequacy of accounting and credibility of financial and budget reports, analysis and assessment of the financial and economic activity of budget owners, and feasibility of planning of budget proceeds and expenses. Moreover, all the budget owners have to facilitate internal control and audit in their institutions and in the institutions and organisations subordinated to such budget owners.

The Accounting Chamber of Ukraine (ACU) is responsible for external control in the public sector. In particular, financial audit and performance audit by the ACU may be conducted in the following areas:

- revenues and expenditures of the State Budget;
- use of the state budget funds provided to the local budgets;

- receipt of the national taxes and levies assigned to the local budgets or a portion thereof, and use of the local budget funds in terms of the expenditures that are defined by the state functions and are transferred for use to the Autonomous Republic of Crimea and local self-government.

The Accounting Chamber conducts audits in accordance with the ACU Guidelines on the Financial Audit that have been developed based on the requirements and clauses of the International Organization of Supreme Audit Institutions (INTOSAI). The Accounting Chamber has to analyse the draft State Budget as well as amendments to the laws on the State Budget, make reports on progress of utilisation of the State Budget and the annual report on utilisation of the State Budget, and present them to the Verkhovna Rada. The ACU conducts scheduled audits of specific budget programmes and responds to requests of the people's deputies.

Following the audit, the ACU submits reports with its comments and issues detected as well as recommendations on elimination thereof to the Verkhovna Rada and respective authorities. According to the laws, the respective authorities have to explain the causes of the defects and respond to the comments. At the same



time, the findings of the Public Expenditure and Financial Accountability (PEFA) have demonstrated that further control by the Cabinet of Ministers in this area is limited, and there is no official system to monitor the recommendations given.⁷³ Moreover, the ACU reports are not discussed by all the members of the Verkhovna Rada.

The internal audit of performing the expenditures of the state and local authorities pursuant to the law is to be performed by the internal audit units of the authorities and the State Audit Service of Ukraine (SASU). Thus, the SASU is responsible for controlling the targeted, efficient and productive use of the state and local budget funds (including the state financial audit), reliability of establishment of the need for budget funds in the planned budget indicators; conformity of the budget indicators to the budget programme data sheet; accounting as well as financial and budget reporting, execution of budget programmes data sheets and reports on performance thereof, cost estimates and other documents. However, in practice, the SASU mostly conducts the financial audit whereas the performance audit is only planned. Following the audits, the SASU gives recommendations to the audited entities and audits the bidding procedures at the expense of the owners of the state and local budgets.

The important thing is that control over conformity of the indicators of the approved budgets, budget financing targets, cost estimates of budget institutions and other documents used in the budget process in relation with the district budgets and territorial community budgets with the budget laws is also exercised by the Regional State Administration.

According to the laws of Ukraine, all the owners of the state and local budgets shall publish their budget requests, budget programme data sheets and information on progress thereof. All the information on the draft State Budget and on the State Budget shall be published. In particular, the government submits a large package of documents on the draft State Budget for the next year to the parliament, and it has to be fully published on the website of the Verkhovna Rada of Ukraine.

The local self-government authorities shall also publish information on the local budgets, resolutions connected with them (budgets) and quarterly reports on budget utilisation. It can be done on their portals. They shall also publish resolutions on the local budget in the designated local newspaper. Some of the local authorities publish full information in the convenient form and also furnish information on budget programme data sheets and reports on performance thereof. At the same time, information is often provided as scanned documents, which makes its analysis complicated.

Public control over budgets of the local authorities is facilitated by E-data platform (<http://edata.gov.ua>) launched in 2015, which combines several portals:

- Unified Web-Portal of Utilisation of Public Funds (<https://spending.gov.ua/new/>): the portal shows all the transactions of all the budget owners, including the level of territorial communities,
- Budget for Citizens Portal (<https://openbudget.gov.ua/>): the portal presents data of budgets of all the territorial communities in terms of indicators of revenues, expenditures, lending and financing. The information is available starting from 2018. The portal also contains the analytical tool of BOOST analysis that enables analysing detailed budget indicators by communities for several years;
- IFIs projects / register of IFI projects (<https://proifi.gov.ua>): the portal contains information on the social and economic development projects financed at the expense of IFIs.

Public procurement by state and local authorities as well as municipal and state enterprises can be controlled owing to the fully open information on the procurement published at ProZorro: it contains information on the specific bidding procedure as well as documents of the bidders and text of the contract made.

Public access to information on the budget indicators of activities of the territorial communities facilitates public control both by the community residents and journalists.

⁷³ <https://www.pefa.org/node/3676>



Chapter 5.

INTERNATIONAL OFFICIAL ASSISTANCE

5.1. Official Flows of the International Official Assistance

Following 2014, Ukraine received the material financial support from the international financial institutions and foreign partners on the bilateral basis. At the same time, it should be noted that most assistance has been provided as *concessional* loans (IMF, EU, World Bank, EBRD, EIB etc.). The USA gave the guarantees for Ukraine's three issues of the Eurobonds in 2014-2016, which materially reduced the rate for the issues of respective bonds. The largest amounts of concessional loans were received by Ukraine from the IMF under several programmes and from the EU under five macro-financial assistance programmes.

Thus, according to the OECD, the obligations of the official donors as to financial assistance for Ukraine's development in 2015-2019 made 8.5 billion US dollars, including 6.8 billion US dollars granted by the USA (Table 2). Most of

the assistance pertain to the member states of Development.⁷⁴ In the first place, they were concessional loans from the EU under the macro-financial assistance programmes, and most arrangements were made on five macro-financial assistance programmes. As for those programmes, Ukraine failed to receive the third tranche under the third international assistance programmes due to failure to meet the conditions. In particular, in October 2021, Ukraine received the second tranche within the programme designated to support the country during the pandemic of Covid-19 without additional conditions. The EU is also one of the major donors of the international technical assistance and budget support of the reforms. According to the OECD, the assistance to Ukraine is less than assistance to the countries in Eastern Europe because the EU Member States are supported from the special funds of the European Union.

Table 2: Scope of the official development assistance (ODA) to Ukraine, mln US dollars

		2015	2016	2017	2018	2019	Total
Official donors	Liabilities	2,994.23	1,720.95	1,176.73	1,201.37	1,403.64	8,496.90
	Granted	1,472.85	1,582.31	1,205.11	1,256.62	1,306.17	6,823.06
DAC Countries	Liabilities	2,350.74	834.59	761.79	793.69	1,014.23	5,755.04
	Granted	1,139.92	985.34	764.64	790.64	777.98	4,458.53
Other countries	Liabilities	8.67	8.64	5.31	9.52	9.66	41.79
	Granted	25.65	27.44	26.94	20.43	20.63	121.09
Multi-lateral agencies*	Liabilities	634.81	877.72	409.63	398.16	379.74	2,700.07
	Granted	307.27	569.53	413.53	445.55	507.57	2,243.44

Note: * including the development banks, namely the World Bank and other regional development banks Source: OECD⁷⁵

⁷⁴ OECD countries except for Chile, Columbia, Israel and Baltic countries.

⁷⁵ <https://stats.oecd.org/qwids/>



The World Bank grants concessional financing to Ukraine in different formats. In particular, they are development policy loans (DPL), which are granted to finance general expenditures (including development expenditures) provided that Ukraine performs the approved policy action programme. The World Bank also grants concessional loans to finance the economic and social development projects.

Nevertheless, Ukraine's largest creditor is the International Monetary Fund (IMF). Thus, in 2014-2020 Ukraine and the IMF agreed upon

three stand-by arrangements and one extended fund facility, but it failed to perform any of the programmes in full as a result of insufficient reform progress. Another IMF arrangement was approved in June 2020, but Ukraine still has managed to receive two tranches only. At the same time, in August 2021, following allocation of the SDR (special drawings rights) of the IMF, Ukraine received the SDR in the amount equivalent to 2.7 billion US dollars. The IMF took that action to help the IMF Member States to recover their economic activity affected by the coronavirus pandemic.

Table 3: Loans from the EU and IMF, mln US dollars

Indicators	2014	2015	2016	2017	2018	2019	2020
EU	2,113	940	117	635	612	13	1,332
Loans from the IMF	4,571	6,526	1,002	996	1,391	0	2,076
Ministry of Finance	2,978	2,633	0	0	0	0	2076
NBU	1,593	3,893	1,002	996	1,391	0	0

Source: Ministry of Finance

In general, in 2016-2020, Ukraine did not receive all the official assistance which the international community was ready to grant.

It resulted from slow implementation of the reforms that had to be conducted by Ukraine pursuant to the applicable arrangements.

5.2. Implementation of the Projects with Financial Support by the IFIs

5.2.1. IFI Loans and Development Finance

One of the important sources of development finance in Ukraine is concessional loans granted by international financial institutions (IFI) for implementation of economic and social development projects both at the central and local levels, at the lending rates lower than the market ones. Such loans are sometimes accompanied by a minor grant element (in particular, as international technical assistance) used to improve the beneficiary's institutional capacity.

Concessional loans to finance the social and economic development projects are granted to Ukraine by the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC),

the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Reconstruction Credit Institute (KfW), Nordic Environment Finance Corporation (NEFCO), the Clean Technology Fund (CTF) and the European Atomic Energy Community (Euratom). Some of the IFIs support not only the public sector projects (together with the local authorities and SEs) and private sector projects, where they act as private investors.

The principal laws and regulations on implementation of the economic and social development projects of Ukraine that are supported by the international financial institutions are:

- *Law of Ukraine "On the International Treaties of Ukraine,"* which establishes the procedure for making, performing and terminating international treaties of Ukraine in order to duly protect national interests, achieve the goals



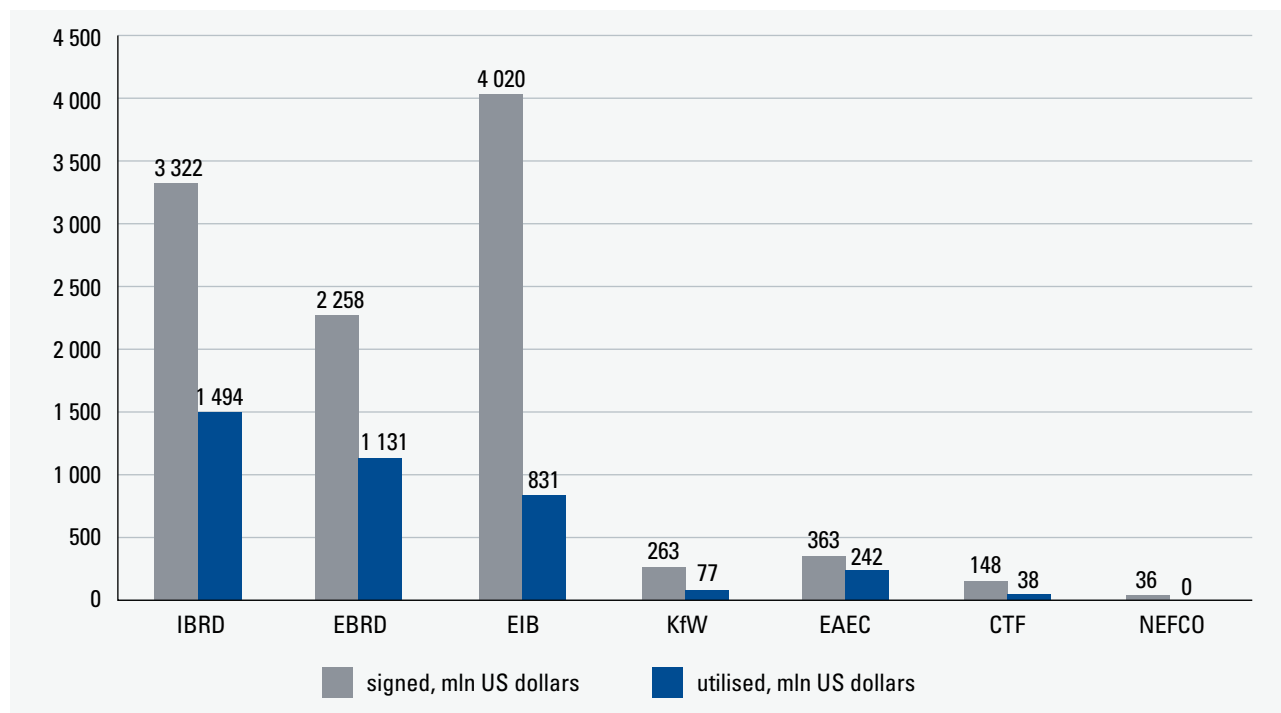
and perform the tasks and principles of the foreign policy of Ukraine established by the Constitution of Ukraine and laws of Ukraine.⁷⁶

- *Resolution of the Cabinet of Ministers of Ukraine No. 70 (dated 27 January 2016) "On the Procedure for Preparing, Implementing, Monitoring and Completing Implementation of the Economic and Social Development Projects of Ukraine Supported by the International Financial Institutions,"* which governs the matters of preparation, implementation, monitoring and completion of implementation of the economic and social

development projects of Ukraine supported by the financial resources of the international financial institutions, except for the International Monetary Fund, which are raised as a loan or credit by the government or against government guarantees.⁷⁷

During the entire period of cooperation between Ukraine and the IFIs, as of 8 June 2021, the major creditors were the IBRD, the EBRD and the EIB, which had granted funds in the total amount of more than 12 billion US dollars, including more than 9 billion US dollars used to finance the investment projects (Figure 22).⁷⁸

Figure 22: Structure of financing of the available projects by the creditor (IFI), mln US dollars



Note: EAEC – European Atomic Energy Community

Source: official portal of the Register of IFI Projects – IFIs projects⁷⁹

It should be noted that there was positive dynamics in receipt of the IFI funds to finance the projects since 2016: their scope grew from 236 million US dollars in 2016 up to 1 billion US dollars in 2020 (Figure 23). Most borrowed funds were raised from the IBRD and EBRD (1.26 billion US dollars and 735 million US dollars accordingly).⁸⁰

Nevertheless, although the drawdown grew rapidly in 2019 and 2020, it still remained low. Thus, the projects with the financing of 6.4 billion US dollars, which were planned to be completed in 2020-2021, had the drawdown of 46.14% only as of June 2021. Their duration will probably be extended during the revision of the project portfolios by the Ministry of Finance together with the respective IFIs.

⁷⁶ <https://zakon.rada.gov.ua/laws/show/1906-15#Text>

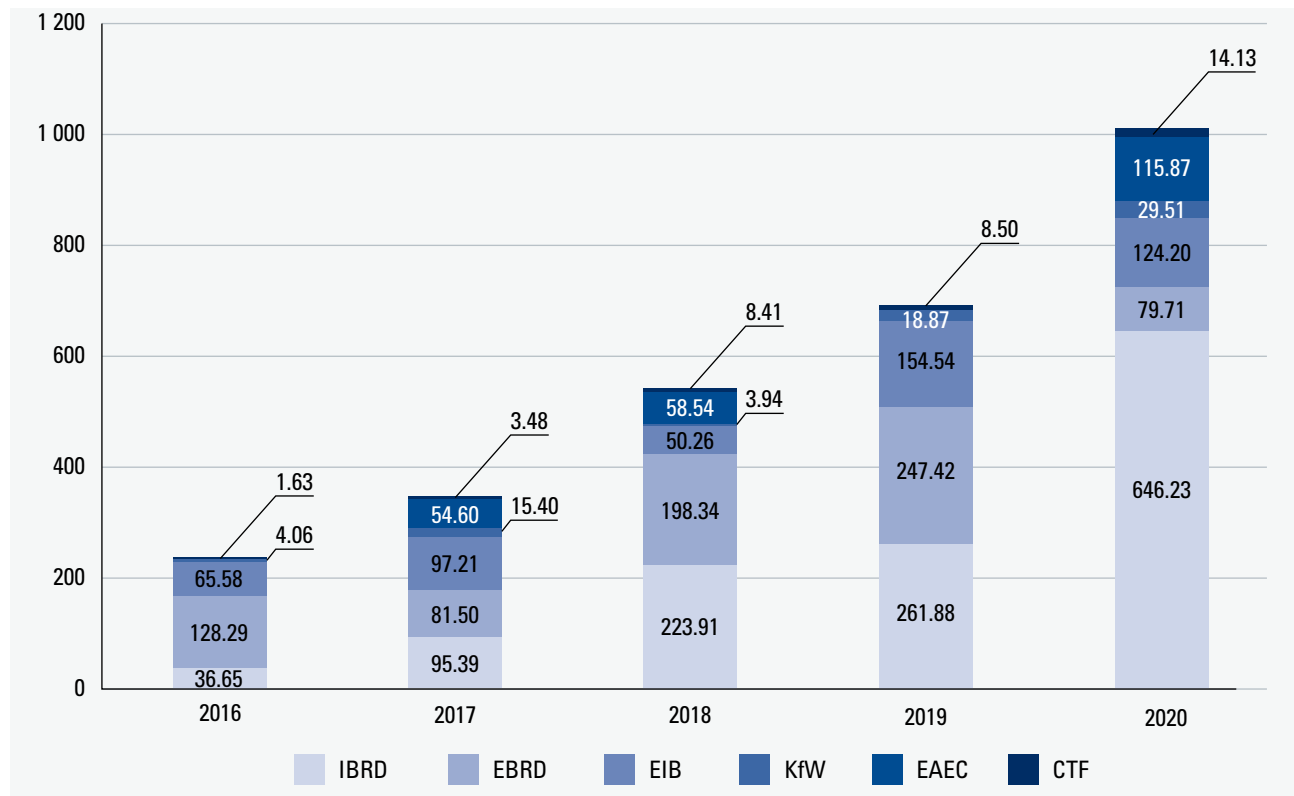
⁷⁷ <https://zakon.rada.gov.ua/laws/show/70-2016-%D0%BF#Text>

⁷⁸ Among the projects included into the Register of IFI Projects, <https://proifi.gov.ua/>

⁷⁹ <https://proifi.gov.ua/?p=analytics>

⁸⁰ <https://proifi.gov.ua/?p=analytics>

Figure 23: Dynamics of using borrowed funds in the available projects during 2016-2020 by the creditor (IFI), mln US dollars



Source: Portal of the Register of IFI Projects

Possible causes of the low drawdown are probably the ones that have already been specified in the governmental Concept of Improved Performance of Implementation of the Common IFI Projects⁸¹:

- At the project initiation stage: lack of clear projects of the IFI projects, insufficient institutional capacity of the ministries and local authorities, poor preparation of projects, and fragmentary assessment.
- At the project implementation stage: insufficient capacity for project management, complex procurement procedures, long-term selection of ultimate beneficiaries, especially for the regional projects.

Insert: Project Beneficiary and Initiator

According to Resolution of the Cabinet of Ministers of Ukraine dated 27 January 2016 No. 70 "On the Procedure for Preparing, Implementing, Monitoring and Completing Implementation of the Economic and Social Development Projects of Ukraine Supported by the International Financial Institutions",

- a beneficiary is the legal entity that is granted the loan within the investment project and facilitates implementation thereof or, together with the other beneficiaries, facilitates implementation of certain parts thereof under the agreement between Ukraine and the IFI, the agreement between the IFI and the beneficiary, the agreement made with the Ministry of Finance;
- an initiator of the investment project is the executive authority, the local self-government authority as well as institution or organisation established by the designated authority in accordance with the established procedure, or the economic operator in the public or municipal sector of economy. Pursuant to Resolution of the CMU No. 70, the initiator of the investment project prepares a project proposal and submits it to the Ministry of Finance for consideration; in its turn, the latter prepares the opinion on expert examination of the project proposal and files a request for financing of the investment project to the IFI.⁸²

The IFIs grant financing to implement the projects pursuant to their strategic documents

and the strategic documents common with Ukraine. According to the data, the funds

⁸¹ <https://mof.gov.ua/uk/news/kabinet-ministriv-skhvalyv-kontseptsiiu-pidvyshchennia-efektyvnosti-vprovadzhennia-spilnykh-z-mfo-proektiv>

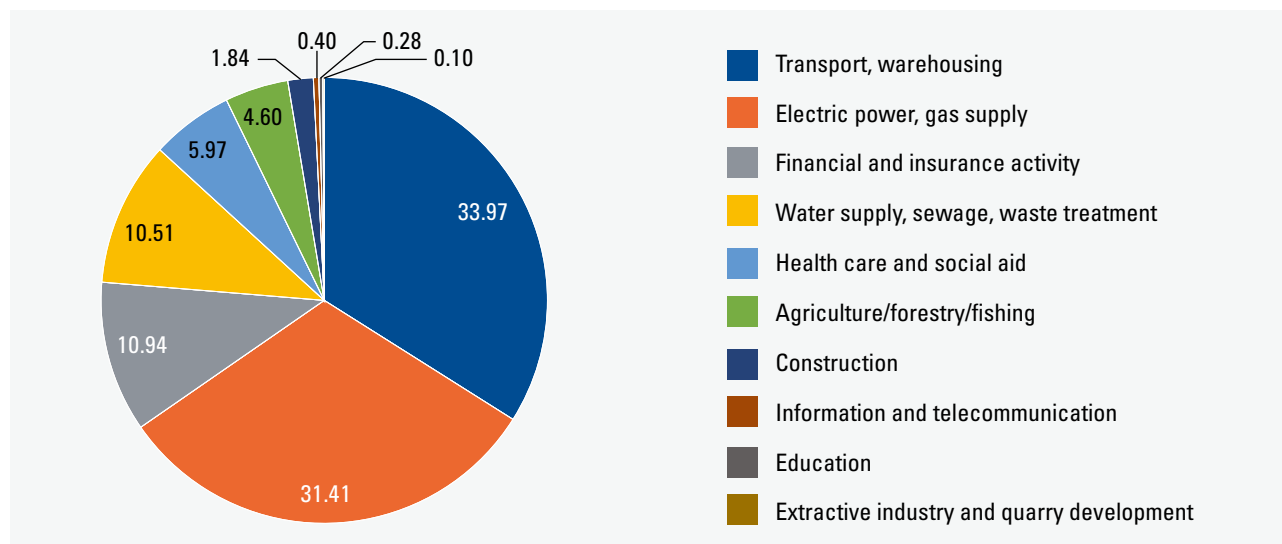
⁸² <https://zakon.rada.gov.ua/laws/show/70-2016-%D0%BF#Text>



borrowed from the IFIs are raised for extremely important needs for economic, social and environmental development of Ukraine in ten sectors (Figure 24) and are aimed at improving

security of the power units of the nuclear power plants, rehabilitation of the hydro power plants, improvement of motor roads, support of small and medium-sized enterprises and health care.

Figure 24: Structure of project financing by the IFIs by the industry



Source: Portal of the Register of IFI Projects

As of June 2021, most economic and social development projects supported by the IFIs pertained to the sectors “Transport, warehousing” (4.4 billion US dollars) and “Electric power, gas supply” (4.2 billion US dollars), which was 65.6% of the total lending by the IFIs. Somewhat lesser amount was allocated for the projects in such sectors as “Financial and insurance activity” (1.4 billion US dollars) and “Water supply, sewage, waste treatment” (1.39 billion US dollars).

Most projects pertain to the Ministry of Energy and Coal Industry of Ukraine (eight project are in progress for the amount of 1.74 billion US dollars, one project for the amount of 39 million US dollars is being prepared, and one project for the amount of 205 million US dollars is being initiated), and to the State Agency of Motor Roads of USA (three projects are in progress for the amount of 1.55 billion US dollars, and four projects are being prepared for the amount of 1.27 million US dollars).

The projects are monitored in accordance with Resolution of the CMU No. 70 by the Ministry of Finance together with the IFIs, the responsible contractor and/or beneficiary

by assessing the preparation and progress of the projects, identifying deviations from the scheduled actions and determining their impact upon fulfilment of the obligations assumed by Ukraine under its agreements with the IFIs, use of the borrowed funds and fulfilment of the financial obligations. In its turn, the responsible contractor shall, via the project coordinator, ensure continuous monitoring of implementation by observing the progress of the action plan for preparation and implementation of the project, the plan for procurement of the goods (works, services) and the project budget, preparing financial reports and assessing achievement of the performance indicators; in case any deviations from the planned actions are identified, it shall facilitate performance of the agreement between Ukraine and the IFI.

All the information on the investment and social development projects implemented with the support of the IFIs, where beneficiaries and responsible contractors are representatives of the public sector, is presented as open data on the portal “Register of IFI Projects” (<https://proifi.gov.ua>). The portal was created in 2019 by the decision of the government.⁸³

⁸³ Decree of the CMU dated 5 October 2016 No. 803-p “On Certain Issues of Anti-Corruption in Ministries, Other Central Executive Authorities” <https://zakon.rada.gov.ua/laws/show/803-2016-p#Text>



5.2.2. Social and Economic Development Projects in Terms of Financing by the Main IFIs

WORLD BANK

Ukraine has been a member of the World Bank Group since 1992. Ukraine has been cooperating with the World Bank pursuant to the Country Partnership Framework for Ukraine 2017-2021 since 2017.⁸⁴ The International Bank for Reconstruction and Development (IBRD) is one of five institutions of the World Bank Group and the largest creditor for the economic development projects in the developing countries. The IBRD grants loans under beneficial conditions for the period of up to 13 to 18 years (in some cases – 27 years) and the grace period of 3 to 6 years (in some cases – 12 years). The loan interest rate is mostly based on LIBOR for six months.⁸⁵ As of October 2021, the IBRD loan rates vary from LIBOR+0.53% for the loans granted for up to 8 years to LIBOR+1.23% for the loans granted for 18 to 20 years. In January to November 2021, LIBOR did not exceed 0.3%, but it approximated 3% in 2018.⁸⁶ The non-recurring fee is 0.25 % of the loan whereas the commitment fee is 0.25 % per

annum and is accrued on the unused part of the loan.

The IBRD loan portfolio for the economic and social development projects for 2021 is made of nine investment projects for the total amount of 3.3 billion US dollars, including three projects for the amount of 148 million US dollars that are co-financed by the Clean Technology Fund (CTF). The IBRD is also financing three social development projects.

In general, the IBRD grants loans for the projects consistent with the SDGs. As of 8 June 2021, most credit funds of the IBRD among the available investment projects were directed at the sector “Health care and social aid” in the total amount of 1.09 billion US dollars (which is concurrently consistent with three SDGs, namely SDG 1 “No poverty”, SDG 3 “Good health and well-being” and SDG 10 “Reduced inequalities”) and the sector “Transport, warehousing” in the amount of 1 billion US dollars (SDG 9 “Industry, innovation and infrastructure”).⁸⁷

The IBRD and CTF loans used in the existing projects as of 8 June 2021 made 1.5 billion US dollars, which is 44.1% of the total amount of the loans (Table 4). The drawdown is low with account of the fact that six projects are going to be completed in 2020-2021, but the undrawn amount is 2 billion US dollars.

Table 4: List of the current projects financed with the loans from the IBRD and CTF

Project	Signing date	Total amount of the loan, US dollars	Drawdown, US dollars	Drawdown %	Sector	SDG
Social Assistance System Modernization in Ukraine	2014-07-09	300,000,000	n/a	0.00	Health care and social aid	1, 3, 10
Additional Financing to Social Assistance System Modernization Project	2020-05-05	150,000,000	80,375,000.00	53.58	Health care and social aid	1, 3, 10
Second Additional Financing to overcome the consequences of the pandemic of COVID-19 to Social Assistance System Modernization Project	2020-12-14	300,000,000	170,000,000.00	56.67	Health care and social aid	1, 3, 10
Serving People, Improving Health Project	2015-03-19	214,730,000	185,430,211.31	86.36	Health care and social aid	3

⁸⁴ <https://www.worldbank.org/uk/country/ukraine/overview#2>,
<https://documents1.worldbank.org/curated/en/501881501141799939/pdf/Україна-Концепція-партнерства-з-країною-на-2017-2021-роки.pdf>

⁸⁵ LIBOR (London Interbank Offered Rate, LIBOR) means the weighted mean interest rate for the inter-bank loans granted by the banks that offer funds in different currencies and for different terms, one day to twelve months, at the London Interbank Market.

⁸⁶ <https://fred.stlouisfed.org/series/USD6MTD156N>

⁸⁷ <https://profi.gov.ua/?p=analytics>



Project	Signing date	Total amount of the loan, US dollars	Drawdown, US dollars	Drawdown %	Sector	SDG
Additional Financing to Serving People, Improving Health Project	2020-05-15	135,000,000	35,458,774.58	26.27	Health care and social aid	3
Second Power Transmission Project (IBRD)	2015-02-10	330,000,000	124,191,873.93	37.63	Electric power, gas supply	7
Second Power Transmission Project (CTF)	2015-02-10	48,425,000	7,346,784.17	15.17	Electric power, gas supply	7
The District Heating Energy Efficiency Project (IBRD)	2014-05-26	332,000,000	101,753,333.63	30.65	Water supply, sewage, waste treatment	6, 7
The District Heating Energy Efficiency Project (CTF)	2014-05-26	50,000,000	10,863,010.03	21.73	Water supply, sewage, waste treatment	6, 7
Second Urban Infrastructure Project (IBRD)	2014-05-26	300,000,000	110,379,232.39	36.79	Water supply, sewage, waste treatment	6, 12
Second Urban Infrastructure Project (CTF)	2014-05-26	50,000,000	19,347,294.28	38.69	Water supply; sewage, waste treatment	6, 12
Second Roads and Safety Improvement Project	2012-09-20	450,000,000	443,966,619.34	98.66	Transport, warehousing	9
Road Sector Development Project (Third Roads Improvement Project)	2015-11-19	560,000,000	169,633,664.37	30.29	Transport, warehousing	9
Access to Long Term Finance Project	2017-06-26	150,000,000	72,810,375.13	48.54	Financial and insurance activity	8
The Eastern Ukraine: Reconnect, Recover, Revitalize (3R) Project	2020-12-17	100,000,000	0.00	0.00	Agriculture/ forestry/fishing	2, 15
Total for the IBRD projects:		3,321,730,000	1,493,999,084.68	44.98		
Total for the CTF projects:		148,425,000	37,557,088.48	25.30		

Note: as of 8 June 2021

Source: official state portal with the Register of Projects⁸⁸

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The European Bank for Reconstruction and Development finances the investment development projects in the private and public sectors. Ukraine has been a member of the EBRD since 1992. Ukraine cooperates with the EBRD within the 2018-2023 Strategy for Ukraine. The variable rate of EURIBOR+1% and the non-recurring fee of 1% are established for the existing EBRD projects.⁸⁹ In 2021, the EURIBOR rates varied from 0.6% to 0.5% per annum.

As of 8 June 2021, nine joint projects with the EBRD are being implemented in the public sector for the total amount of the loan of 2.2 billion US dollars, including one project with the co-financing by Euratom in the amount of 363 million US dollars. Today the projects are only implemented in two sectors, namely "Transport, warehousing" for the total amount of 1.1 billion US dollars and "Electric power, gas supply" for the amount of 1.15 billion US dollars. In general, the EBRD is planning to finance the projects consistent with three sustainable development goals, namely SDG 7 "Affordable and clean energy", SDG 9 "Industry, innovation and infrastructure", and SDG 16 "Peace, justice and strong institutions".

⁸⁸ <https://profi.gov.ua/?p=analytics>

⁸⁹ European Interbank Offered Rate (abbr. EURIBOR) means the average interest rate for the interbank loans that are granted in EUR.



The EBRD and Euratom loans used in the existing projects as of 8 June 2021 make 1.13 billion US dollars (50.07 % of the allocated amount) and 242 million US dollars (66.67 %) accordingly. The drawdown in the project “Electrification of the Railway Line between Dolynska-Mykolaiv-Kolosivka Section” still has not started, and

the drawdown in three projects “Transmission Network Modernisation (49235)”, “Kharkiv Third Line Metro Extension” and “Reconstruction, Overhaul and Modernisation of the Main Gas Pipeline “Urengoy-Pomary-Uzhhorod” made only 1% for each. The undrawn amount is 1.2 billion US dollars.

Table 5: List of the current projects financed with the loans from the EBRD and Euratom

Project	Signing date	Total amount of the loan, US dollars at the NBU rate	Drawdown, US dollars at the NBU rate	Drawdown %	Sector	SDGs
Electrification of the Railway Line between Dolynska-Mykolaiv-Kolosivka Section	2017-12-31	181,500,000	0.00	0.00	Transport, warehousing	9
Complex (Consolidated) Safety Upgrade Program of Power Units of Nuclear Power Plants 42086	2013-03-25	363,000,000	359,123,791.77	98.93	Electric power, gas supply	7, 16
Complex (Consolidated) Safety Upgrade Program of Power Units of Nuclear Power Plants (Euratom)	2013-08-07	363,000,000	242,000,000.00	66.67	Electric power, gas supply	7, 16
Dnipropetrovsk Metro Construction Completion Project 41614	2012-07-27	183,920,000	43,921,333.32	23.88	Transport, warehousing	9
Transmission Network Modernisation Project (49235)	2019-07-30	180,290,000	1,802,900.00	1.00	Electric power, gas supply	7
Hydro Power Plants Rehabilitation 47947	2015-12-30	217,800,000	75,433,546.10	34.63	Electric power, gas supply	7
Kharkiv Third Line Metro Extension	2017-12-11	193,600,000	1,936,000.00	1.00	Transport, warehousing	9
Construction of 750 kV Air Line of Zaporizhzhia NPP-Kakhovka 40147	2010-10-19	211,750,000	162,828,805.18	76.90	Electric power, gas supply	7
Reconstruction, Overhaul and Modernisation of the Main Gas Pipeline “Urengoy-Pomary-Uzhhorod” 42608	2014-12-15	181,500,000	1,815,000.00	1.00	Electric power, gas supply	7
Improvement of the Transport and Operation Condition of the Access Roads to Kyiv 40185	2010-11-26	544,500,000	483,744,432.16	88.84	Transport, warehousing	9
Total for the EBRD projects:		2,257,860,000	1,130 605,808.53	50.07		
Total for the Euratom projects:		363,000,000	242,000,000.00	66.67		

Note: as of 8 June 2021

Source: official state portal with the Register of IFI Projects, own opinion on the division by SDGs

EUROPEAN INVESTMENT BANK

Ukraine has been cooperating with the European Investment Bank (EIB) since 2004. It finances the projects directed at development of roads in Ukraine, the power industry, development of the municipal and railway infrastructure, support of small and medium-sized businesses, and recovery of

the infrastructure in Donetsk and Luhansk Regions.

The EIB mostly grants loans for up to 30 years, with the grace period of three to six years; the commitment fee is 0.1% per annum of the unused part of the loan whereas the non-recurring fee is 0.25% of the loan. The interest rate for the loans is based on EURIBOR.⁹⁰

⁹⁰ The European Interbank Offered Rate (EURIBOR) means the average interest rate for the interbank loans that are granted in EUR.

**Table 6: List of the current projects financed with the loans from the EIB and NEFCO**

Project	Signing date	Total amount of the loan, US dollars at the NBU rate	Drawdown, US dollars at the NBU rate	Drawdown %	Sector	SDGs
Development of the Water Supply and Waste Water Disposal System in Mykolaiv 25.474	2010-02-02	18,803,400	6,050,000.00	32.18	Water supply, sewage, waste treatment	6
Ukraine Municipal Infrastructure Programme 81.425	2015-07-23	484,000,000	363,000.00	0.08	Water supply, sewage, waste treatment	6, 12
Ukraine Urban Public Transport 85.103	2016-11-11	242,000,000	0.00	0.00	Transport, warehousing	9
Dnipropetrovsk Metro Construction Completion 81.423	2014-06-01	183,920,000	30,653,333.74	16.67	Transport, warehousing	9
Reconstruction, Overhaul and Modernisation of the Main Gas Pipeline "Urengoy-Pomary-Uzhhorod" 81.420	2014-12-01	181,500,000	0.00	0.00	Electric power, gas supply	7
Principal Loan to SMEs and Companies with Medium Capitalisation 82.844	2014-12-15	484,000,000	112 530,000.00	23.25	Financial and insurance activity	8
Principal Loan for the Agrarian Industry – Ukraine 85.055	2015-12-28	484,000,000	21,780,000.00	4.50	Agriculture/forestry/fishing	2, 15
Ukraine Early Recovery Programme 84.160	2014-12-22	242,000,000	96,800,000.00	40.00	Construction	16
European Roads Ukraine II (Improvement of the Transport and Operation Condition of the Access Roads to Kyiv) 26.131/26.132	2011-05-27	544,500,000	257,622,705.67	47.31	Transport, warehousing	9
Kharkiv Metro Extension 85.847	2017-12-11	193,600,000	0.00	0.00	Transport, warehousing	9
Construction of 750 kV Air Line of Zaporizhzhia NPP-Kakhovka 31.143	2011-09-16	211,750,000	87,967,000.00	41.54	Electric power, gas supply	7
Construction of 750 kV High Voltage Line from Rivne NPP to Kyiv 24.668	2008-10-08	181,500,000	136,064,500.00	74.97	Electric power, gas supply	7
Ukrainian Railways Modernisation Project (Modernisation of Infrastructure of Ukrainian Railways PJSC) 81.843	2016-12-19	181,500,000	0.00	0.00	Transport, warehousing	9
Ukraine Higher Education 84.172	2016-12-19	145,200,000	0.00	0.00	Education	4, 7
Ukraine Higher Education 84.172 (NEFCO)	2017-12-19	36,300,000	0.00	0.00	Education	4, 7
Hydro Power Plants Rehabilitation 31.177	2012-09-21	242,000,000	81,070,000.00	33.50	Electric power, gas supply	7
Total for the EIB projects:		4,020,273,400	830,900,539.41	20.67		
Total for the NEFCO projects:		36,300,000	0.00	0.00		

Note: as of 8 June 2021

Source: official state portal with the Register of IFI Projects, own opinion on the division by SDGs

As of 8 June 2021, the EIB project portfolio in the public sector of Ukraine made 15 current projects for the total amount of

4.02 billion US dollars.⁹¹ The main sectors for which most funds have been raised are "Transport, warehousing" for the total

⁹¹ <https://proifi.gov.ua/?p=analytics>



amount of 1.3 billion US dollars (consistent with SDG 9) and “Electric power, gas supply” for the amount of 816 billion US dollars (consistent with SDG 7). However, the project drawdown is very low. The drawdown in five projects still has not started, including the Ukraine Higher Education 84.172 Project, which also provides for co-financing by NEFCO. The drawdown in two other projects, Ukraine Municipal Infrastructure Programme 81.425 and Principal Loan for the Agrarian Industry – Ukraine 85.055, is less than 5%. The undrawn amount is 3.2 billion US dollars.

RECONSTRUCTION CREDIT INSTITUTE (KfW)

The Reconstruction Credit Institute is the state bank of the Government of the FRG that facilitates economic development of Germany, Europe and the world. From 2007 KfW has been granting financing to Ukraine

to implement the projects supporting small and medium-sized businesses (SDG 8), improving energy efficiency (SDG 7), reconstructing and upgrading the water supply systems (SDG 6).

As of 8 June 2021, the KfW project portfolio is made of four projects for the total amount of 263 million US dollars, including two projects “Improvement of Power Transmission Performance (Substation Modernisation)” and “Non-Targeted Financial Loan (Substation Modernisation in the East of Ukraine Project)” in progress. As for the Municipal Water Facilities Project in Chernivtsi, Stage 1, which provides for reconstruction and upgrade of the water supply system in the city, the drawdown has not started yet, whereas the drawdown in the project “Support of Small and Medium-Sized Enterprises 2007 65 339” is 100%. The undrawn amount is 186 million US dollars.

Table 7: List of the current projects financed with the loans from KfW

Project	Signing date	Total amount of the loan, US dollars at the NBU rate	Drawdown, US dollars at the NBU rate	Drawdown %	Sector	SDGs
Municipal Water Facilities Project in Chernivtsi, Stage 1	2015-02-06	20,570,000	0.00	0.00	Water supply, sewage, waste treatment	6
Improvement of Power Transmission Performance (Substation Modernisation)	2011-12-30	49,005,000	16,610,457.08	33.90	Electric power, gas supply	7
Support of Small and Medium-Sized Enterprises 2007 65 339	2012-12-29	12,100,000	12 100,000.00	100.00	Financial and insurance activity	8
Non-Targeted Financial Loan (Substation Modernisation in the East of Ukraine Project)	2016-10-10	181,500,000	47,978,220.61	26.43	Electric power, gas supply	7
Total:		263,175,000	76,688,677.69	29.14		

Note: as of 8 June 2021

Source: official state portal with the Register of IFI Projects

5.2.3. Projects Being Prepared and Initiated

As of June 2021, 20 investment projects were at the preparation stage, and four projects

were being initiated; the allocated loans were approximately 4 billion US dollars. In particular, most funds are going to be raised to finance implementation of the projects in the sector “Transport, warehousing” (ten projects for the approximate amount of 2 billion US dollars).⁹²

⁹² <https://profi.gov.ua/?p=analytics>

**Table 8: List of the investment projects being prepared**

Project	Creditor	Signing date	Approximate amount of the loan, US dollars at the NBU rate	Sector
Ukraine Transport Connections – Phase I 87.617	EIB	2018-12-17	60,500,000	Transport, warehousing
Logistic Chain	EIB	2020-10-06	36,300,000	Transport, warehousing
The Eastern Ukraine: Reconnect, Recover, Revitalize (3R) Project	EIB	2020-12-09	121,000,000	Transport, warehousing
Ukraine Urban Public Transport II	EIB	2020-12-09	242,000,000	Transport, warehousing
Ukraine Improving Higher Education for Results	IBRD		200,000,000	Education
Energy Efficiency of Public Buildings in Ukraine	EIB	2020-10-06	363,000,000	Construction
Boryspil Airport Development	EIB	2021-02-16	326,700,000	Transport, warehousing
Ukraine Emergency COVID-19 Response Vaccination Project Restructuring the Serving People, Improving Health Project (Loan No. 8475-UA)	IBRD		90,000,000	Health care and social aid
Improving Energy Efficiency in Power Transmission (Reconstruction of Transformer Substations) II	KfW		39,325,000	Electric power, gas supply
Substations Reliability Enhancement 87.554	EIB		164,560,000	Electric power, gas supply
Development of the Trans-European Transport Network (Ukraine Road Corridors) 50831	EBRD	2020-12-18	544,500,000	Transport, warehousing
Development of the Trans-European Transport Network	EIB	2019-11-22	544,500,000	Transport, warehousing
Ukraine Urban Road Safety 86.980	EIB		90,750,000	Transport, warehousing
Procurement of Workover Benches and Enhanced Energy Efficiency of Ukgasvydobuvannya JSC	EBRD	2020-07-30	62,738,500	Electric power, gas supply
Second Energy Efficiency Project	IBRD		150,000,000	Financial and insurance activity
Refinancing Energy Efficiency for Ukrainian Small and Medium-Sized Enterprises via the Banking Sector (German – Ukrainian Fund (GUF)) (GF III)	KfW		8,470,000	Financial and insurance activity
Ukrposhta Development Project. Logistic Chain and Rural Offices.	EBRD	2020-11-16	76,230,000	Transport, warehousing
Kyiv Urban Mobility Project	IBRD		43,318,000	Transport, warehousing
Community Energy Efficiency I	KfW		30,855,000	Electric power, gas supply
Ukraine Recovery Programme	EIB	2020-12-09	411,400,000	Construction
Total:			3,606,146,500	

Note: as of June 2021

Source: official state portal with the Register of IFI Projects

Table 9: List of the investment projects being initiated

Project	Creditor	Approximate amount of the loan, US dollars at the NBU rate	Sector
Non-Targeted Financial Loan for the total amount of 90 million euros	KfW	108,900,000	Electric power, gas supply
Non-Targeted Financial Loan for the total amount of 60 million euros	KfW	72,600,000	Agriculture/forestry/fishing
Additional Financing for COVID-19 within the Access to Long Term Finance Project	IBRD	100,000,000	Financial and insurance activity



Response under the Access to Long Term Finance Project			
Installation of the Hybrid Power Generation Systems at Ukrhydroenergo PrJSC	IBRD	172,000,000	Electric power, gas supply
Installation of the Hybrid Power Generation Systems at Ukrhydroenergo PrJSC	CTF (IBRD)	33,000,000	Electric power, gas supply
Total:		486,500,000	

Note: as of June 2021

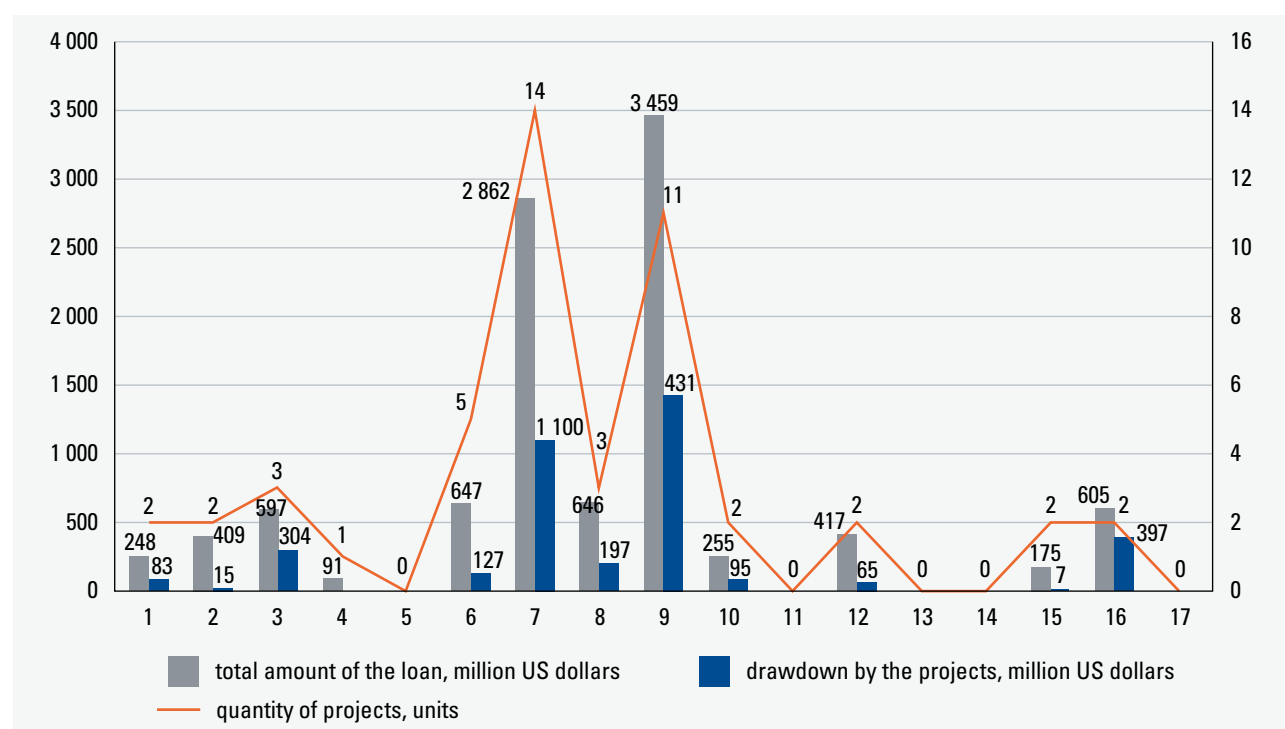
Source: official state portal with the Register of IFI Projects

5.2.4. Assessment of Project Division by the SDGs

According to the experts, most projects implemented with the IFI support in the public sector conform to SDG 9 “Industry, innovation and infrastructure” and SDG 7 “Affordable and clean energy” (Figure 25). In particular, in pursuance of SDG 9, the funds borrowed from the IFI have been allocated to implement the projects in the sector “Transport, warehousing” that are

directed at development of the public transport and road industry. The IFI financing for SDG 7 has been directed at the sector “Electric power, gas supply” to implement the projects as to improvement of energy efficiency in centralised heating supply, construction of high voltage air lines, upgrade of the electric power supply grid and safety upgrade of power units of nuclear power plants. In total, implementation of SDG 9 and SDG 7 for the available projects in the public sector was allocated 3.4 billion US dollars and 2.9 billion US dollars.

Figure 25: Financing of the SDGs in the available IFI projects in the public sector



Source: expert opinion based on the data from the portal of the register of IFI projects

However, according to the data, drawdown of funds for the projects aimed at SDG 4 still has not started although financing must be raised for the educational sector due to lack of public investment into that area. Also, a number of the SDGs are ignored, namely:

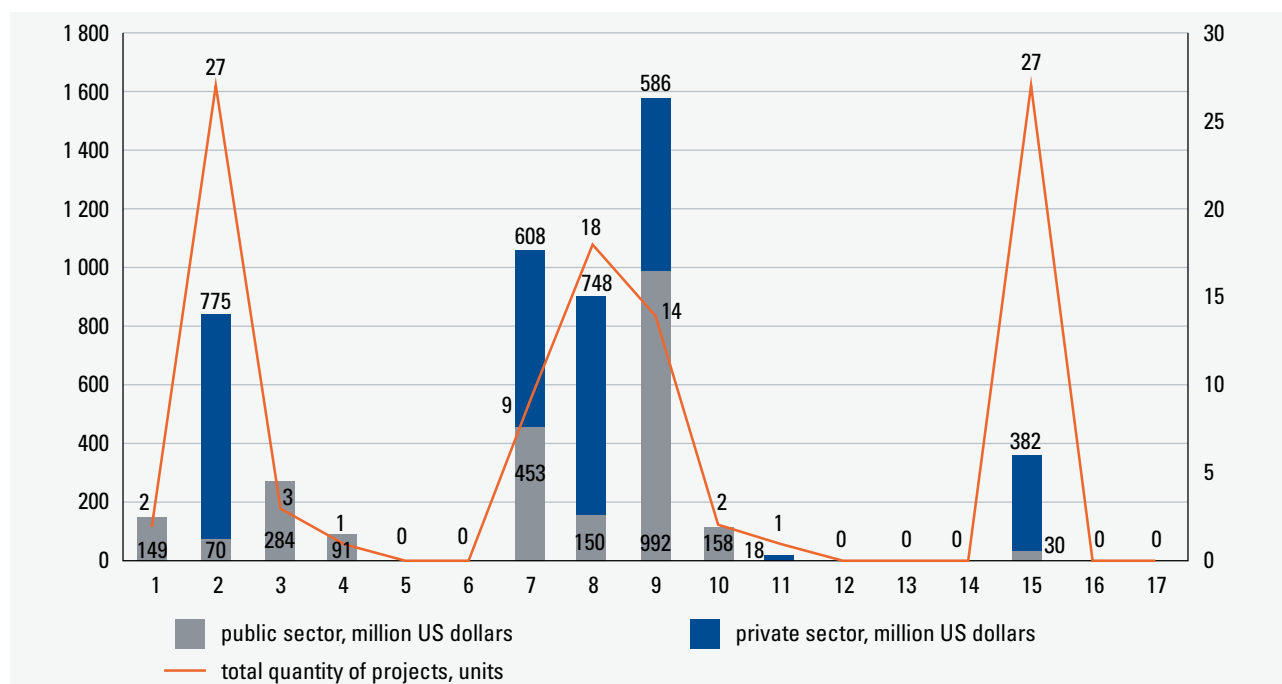
- SDG 5 “Gender equality”;
- SDG 11 “Sustainable cities and communities”;
- SDG 13 “Climate action”;
- SDG 14 Life below water”.



However, it should be noted that, although the experts have found no projects consistent with SDG 17 “Partnerships for the goals,” all the social and economic development projects supported by the IFI actually help achieve this goal.

During 2016-2020, the public and private sectors started to implement the projects within ten SDGs for the total amount of 2.37 billion US dollars and 3.1 billion US dollars accordingly (Figure 26). Below are the main SDG for implementation of which most funds borrowed from the IFIs were allocated in 2016-2020.

Figure 26: SDG financing in 2016-2020



Source: expert opinion based on the data from the official websites of the EIB, EBRD, IFC and the Portal of the Register of IFI Projects

Goal 2 “Zero hunger, development of agriculture”.

SDG 2 includes 70% of financing for the projects implemented in the agrarian sector whereas the other share of the financing for the respective projects pertains to SDG 15. It is connected with the fact that the projects in the agrarian sector are quite versatile and are concurrently associated with several SDGs. As for the public sector, only one project was approved in 2016-2020: The Eastern Ukraine: Reconnect, Recover, Revitalize (3R) Project, which provides for support of agricultural recovery within the territories of the project, namely the areas of Luhansk Region controlled by the Government. The project is going to be implemented with the funds borrowed from the IBRD. Instead, the EBRD and IFC approved 26 projects in the private sector to support the agribusiness in Ukraine.

In general, implementation of the projects to achieve SDG 2 will require 845 million US dollars (one project for the amount of 70 million US dollars in the public sector and 26 projects for the amount of 775 million US dollars in the private one).

Goal 7 “Affordable and clean energy”.

The projects that can pertain to SDG 7 include three projects in the public sector and six in the private one. In particular, the public sector is implementing two projects supported by the EBRD and KfW that are directed at transmission network modernisation, including reconstruction of substations in the east of Ukraine. SDG 7 can also include another project in the sector “Education” with the weight of 50%, which provides for raising funds from the EIB and NEFCO, including to assist in improvement of energy efficiency in universities. The projects in the private sector associated with SDG 7 are implemented with the funds borrowed from the EBRD and are directed at developing the green energy and supporting oil and gas companies.

In general, implementation of the projects to achieve SDG 7 will require 1.1 billion US dollars (three projects for the amount of 453 million US dollars in the public sector and 6 projects for the amount of 608 million US dollars in the private one).



Goal 8 “Decent work and economic growth”. As for the public sector, only one project associated with SDG 8 was approved in 2016-2020. This project is supported by the IBRD and provides for better access of export-focused small and medium-sized enterprises to long-term financing. However, seventeen projects that are implemented with the funds borrowed from the EIB, EBRD and IFC and directed at supporting small and medium-sized businesses in Ukraine via loan facilities of the partnering financial intermediaries pertain to SDG 8 in the private sector.

In general, implementation of the projects to achieve SDG 8 will require 898 million US dollars (one project for the amount of 150 million US dollars in the public sector and 17 projects for the amount of 748 million US dollars in the private one).

Goal 9 “Industry, innovation and infrastructure”. The biggest financial resources from the IFIs in the amount of 1.6 billion US dollars (five projects for the amount of 992 million US dollars in the public sector and 9 projects for the amount of 586 million US dollars in the private one) have been allocated for the projects aimed at achievement of SDG 9 in such sectors as “Transport, warehousing”, “Infrastructure” and “Production”. In particular, in the public sector, SDG 9 includes the projects supported by the

EBRD and EIB and directed at public transport development. On the contrary, in 2016-2020, the projects to be implemented with the funds borrowed from the EBRD and IFC were approved in the private sector in order to develop the manufacturing industry and transport infrastructure in Ukraine.

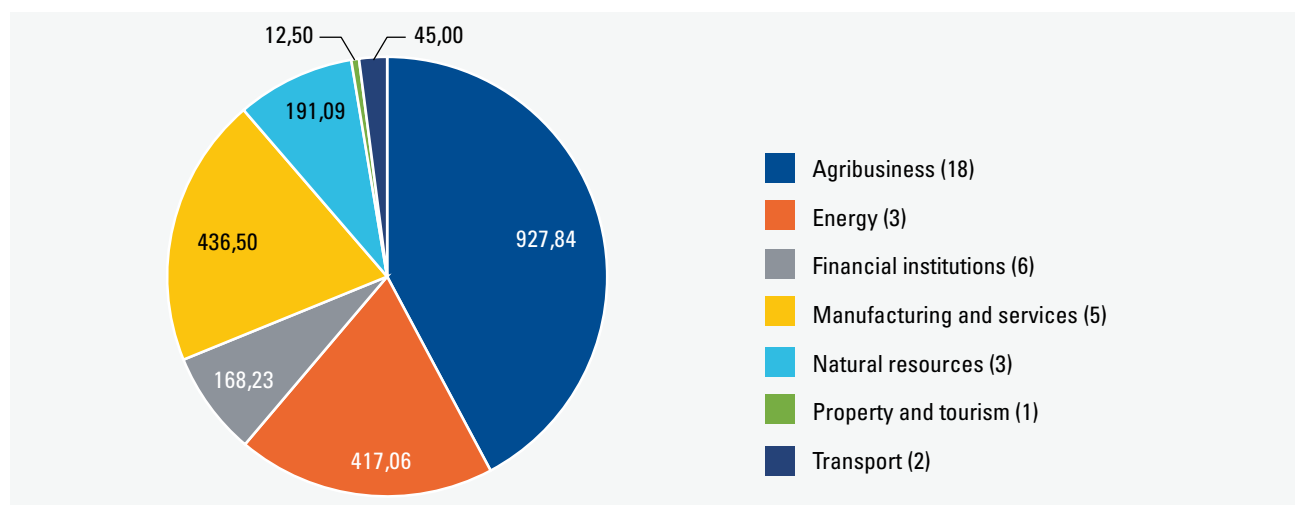
5.2.5. Private Sector Projects

In addition to the public sector, such IFIs as the EBRD, EIB and IFC also grant loans to the private sector.

The EIB facilitates development of the private sector, namely SMEs, by means of loan facilities via partnering financial intermediaries. In 2016-2020, the EIB granted such loans in the amount of 526.35 million US dollars (nine projects).⁹³

In 2016-2020, the EBRD approved the loans for 38 projects for the total amount of 2.2 billion US dollars (Figure 27). Most funds borrowed from the EBRD are provided for implementation of projects in the agrarian and power sectors (18 projects for the amount 927.84 million dollars and three projects for the amount of 417.06 million US dollars accordingly).⁹⁴ In particular, the EBRD supported the projects to develop alternative sources of energy.

Figure 27: Total amount of the loans and quantity of the projects approved by the EBRD in 2016-2020 (by the sectors), million US dollars



Source: official website of the EBRD⁹⁵

⁹³ <https://www.eib.org/en/projects/loans/index.htm?q=&sortColumn=loanParts.loanPartStatus.statusDate&sortDir=desc&pageNumber=0&itemPerPage=25&pageable=true&language=EN&defaultLanguage=EN&loanPartYearFrom=1959&loanPartYearTo=2021&orCountries.region=true&countries=UA&orCountries=true§ors=9900&orSectors=true>

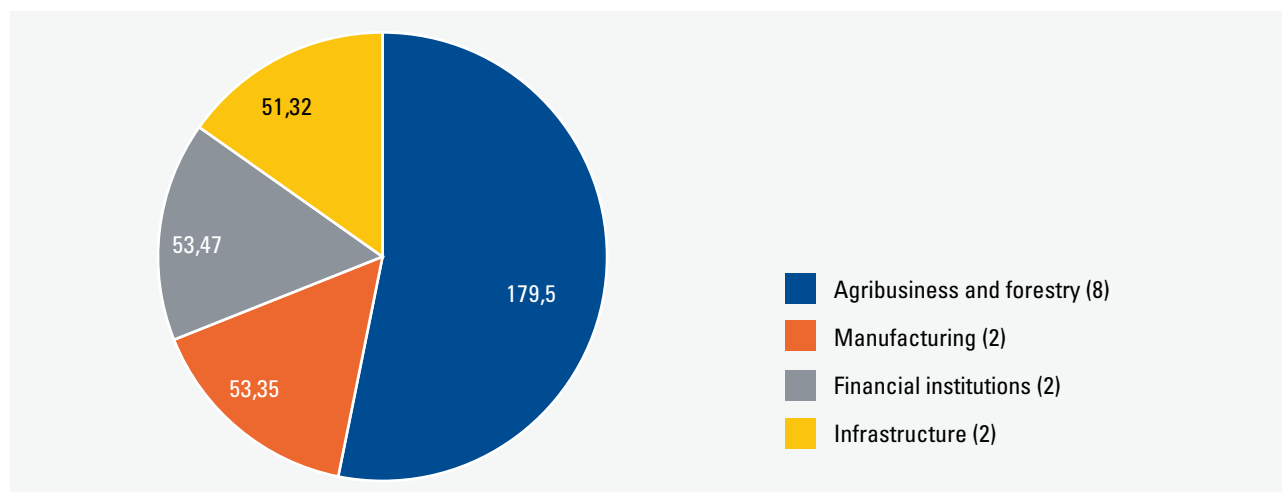
⁹⁴ <https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?c37=on&keywordSearch=>

⁹⁵ <https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?c37=on&keywordSearch=>

The International Finance Corporation (IFC) is a member of the World Bank Group and grants loans to support private businesses (Figure 28). According to the IFC, as of 20 June 2021, the total amount of the loans for the effective projects in Ukraine makes 669.87 million US dollars.⁹⁶ In 2016-2020, the IFC approved the

loans to implement 14 projects for the amount of 337.64 million US dollars. The main sector to which most funds borrowed from the IFC were allocated was Agribusiness and Forestry (eight projects for the amount of 179.5 million US dollars).

Figure 28: Total amount of the loans and quantity of the projects approved by the IFC in 2016-2020 (by the sectors), million US dollars



Source: official website of the IFC⁹⁷

In general, the most support of the IFI is granted to the private sector to implement the agrarian

projects: in 2016-2020, 26 projects were approved for the amount of 1.1 billion US dollars.

5.3. International Technical Assistance

The official development assistance (ODA) is one of the types of development finance based on the sustainable development goals (SDGs). SDG Target 17.2 prescribes the need to ensure that “developed countries implement fully their official development assistance commitments”. The international technical assistance (ITA) as a type of the ODA is one of the important mechanisms for financing sustainable development in Ukraine. Ukraine as a developing country has been receiving the ITA since 1992 and uses this financial tool quite actively almost in all the economic sectors.⁹⁸

The principal legislative act governing the matters of ITA in Ukraine is the Resolution of the

Cabinet of Ministers of Ukraine “*On Creating the Uniform System for Raising, Using and Monitoring International Technical Assistance*”, which governs the rules and procedures for raising the ITA, state registration and monitoring of the projects, certification of the contractors, use of the ITA, registration of representative offices of the donor institutions in Ukraine, and ITA coordination.

According to this Resolution, the international technical assistance is defined as *financial and other resources and services that are provided in accordance with the international treaties of Ukraine by the development partners on a free and non-repayable basis to support Ukraine*" (Figure 29).

⁹⁶ https://disclosures.ifc.org/enterprise-search-results-home?f_region_description=ECAREG

⁹⁷ https://disclosures.ific.org/enterprise-search-results-home?f_region_description=ECAREG

⁹⁸ Resolution of the CMU No. 153 dated 15.02.2002 (as amended and supplemented), <https://zakon.rada.gov.ua/laws/show/153-2002-%D0%BF#Text>



Figure 29: Formats of the international technical assistance



Source: developed based on Resolution of the CMU No. 153 dated 15.02.2002

The organisational and legal framework for cooperation between Ukraine and its development partners within the ITA is regulated by the framework agreements with the development partner countries, framework agreements with the international organisations being development partners, and agreements between the Government of Ukraine and the EU on the EU assistance. All the ITA projects have to pass state registration with the Secretariat of the Cabinet of Ministers of Ukraine (SCMU).

In order to improve performance of the ITA, in October 2020, the CMU introduced the three-level ITA coordination system. The system was made of such elements as Development Partnership Forum, the purpose of which was to determine common strategic priorities and needs regarding the ITA for Ukraine together with the representatives of the development partners; strategic platform (established for strategic coordination of the ITA) and sectoral work groups (created for the regular dialogue with the development partners).⁹⁹ Several meetings of the forum and sectoral work groups have already been held.

The Secretariat of the Cabinet of Ministers of Ukraine has been coordinating the activity associated with the international technical

assistance in Ukraine since December 2019 (the previous ITA coordinator was the Ministry of Economy of Ukraine). The SCMU and the beneficiary control the intended use of the international technical assistance during the term of the project as well as ongoing (every six months) and final monitoring of implementation of the ITA projects. Following the monitoring, the Secretariat of the Cabinet of Ministers of Ukraine has to prepare and publish the annual report on provision and use of the ITA by Ukraine.

Public monitoring over use of the ITA is possible owing to publication and regular update of the data tables on the ITA projects. According to the SCMU, the convenient portal with the ITA data is now being developed instead of ProAID Portal, which worked in 2019 and was a convenient source of information on the projects.

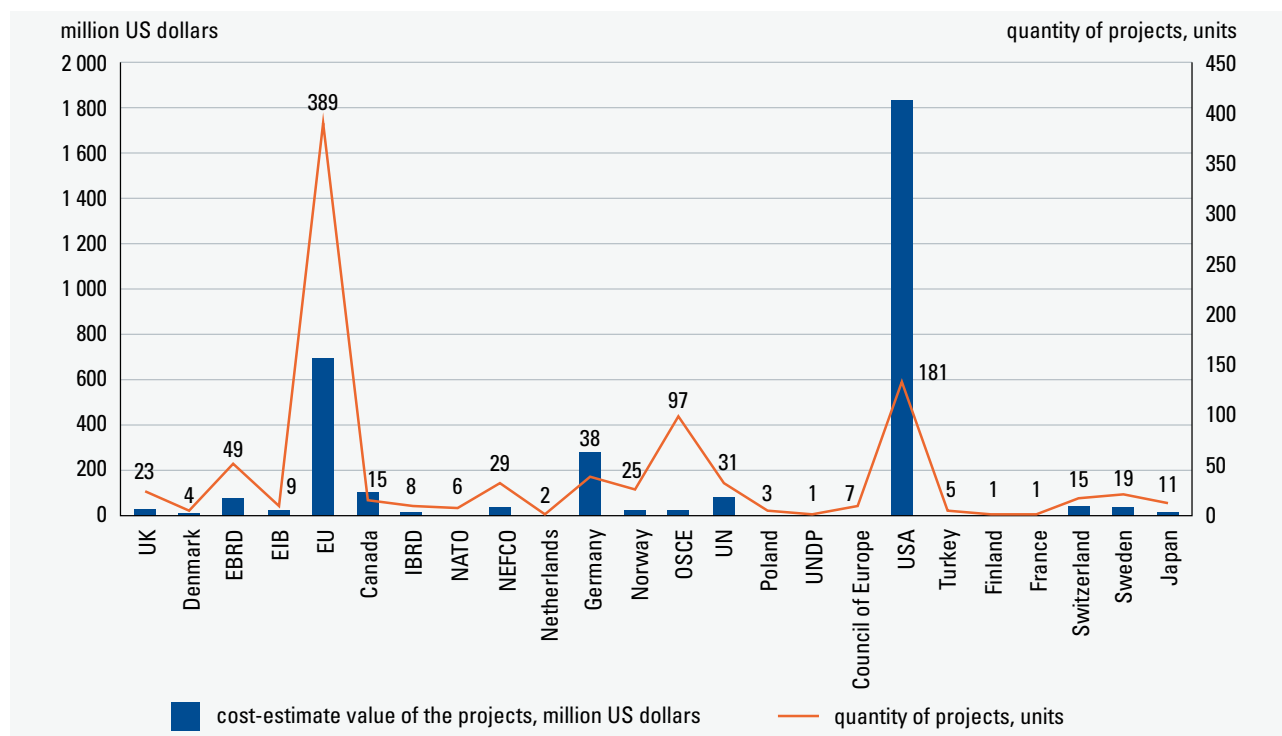
ITA PROJECTS

Within the ITA framework, Ukraine cooperates with 23 development partners. Major partners are the USA, the EU and Germany (Figure 30). The ITA projects are implemented in 22 sectors.

⁹⁹ Resolution of the CMU No. 942 dated 9 October 2020 "On Amending Resolution of the Cabinet of Ministers of Ukraine dated 15 February 2002 No. 153", <https://zakon.rada.gov.ua/laws/show/942-2020-%D0%BF#Text>



Figure 30: Quantity and cost-estimate value of the ITA projects the implementation of which started in 2016-2020, by the development partners

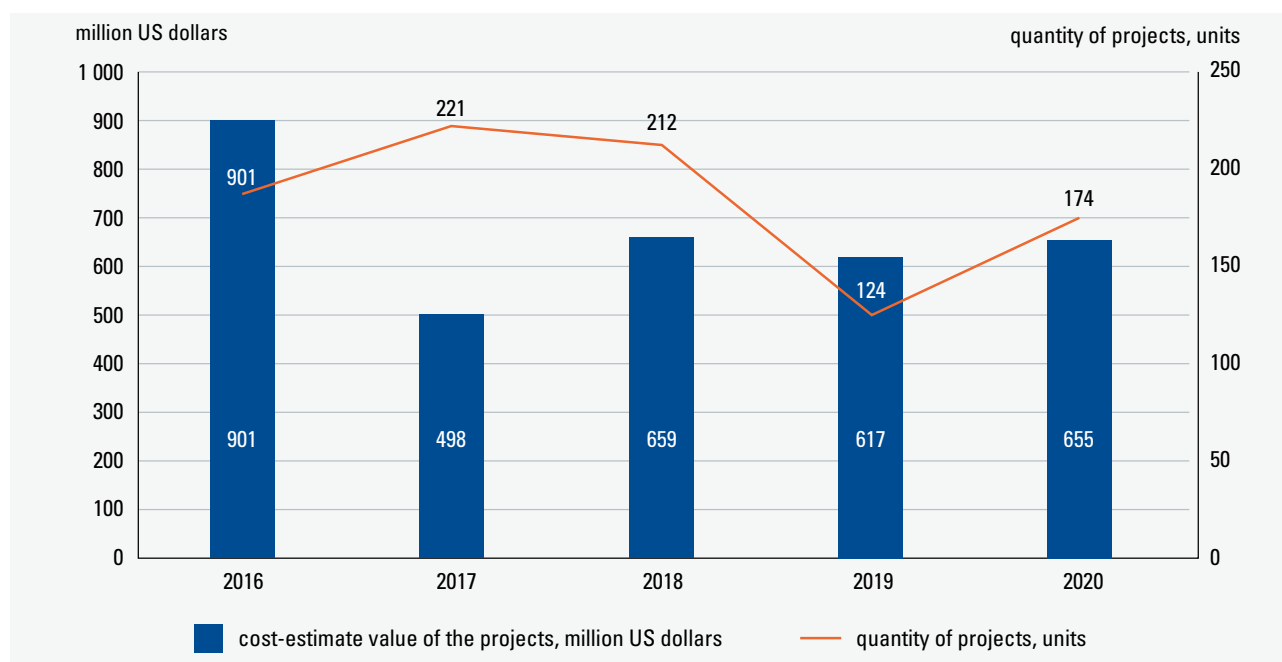


Source: official website of the CMU, Diia¹⁰⁰

Ukraine raised the ITA quite stably from 2016 until 2020 (Figure 31). On average, the ITA projects are annually initiated in Ukraine for the total cost-estimate value of more than 600

million US dollars. In general, for the last five years, Ukraine has started to implement 918 ITA projects with the total cost-estimate value of 3.33 billion US dollars.¹⁰¹

Figure 31: Quantity and cost-estimate value of the ITA projects the implementation of which started in 2016-2020



Source: official website of the CMU, Diia¹⁰²

¹⁰⁰ <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>

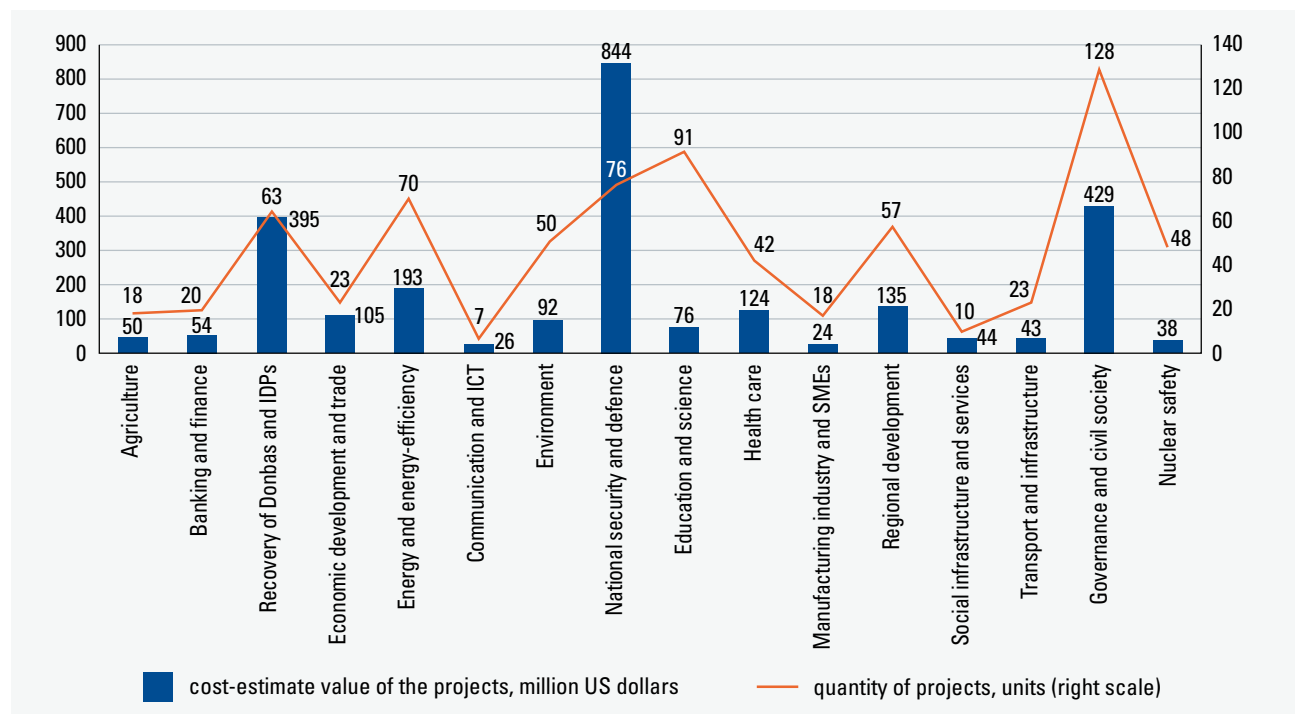
¹⁰¹ The value of the projects is hereinafter specified in US dollars unless specified otherwise.

¹⁰² <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>

The total cost-estimate value of the ITA projects started in 2016 made more than 901 million US dollars, with 63% raised for the following sectors: "National security and defence" (271.6 million US dollars), "Governance and civil society" (172.5 million US dollars) and "Recovery of Donbas and IDPs" (135.2 million US dollars). The principal development project in 2016 was the USA: they supported the projects for the amount of 460 million US dollars, which made 51% of the total cost-estimate value of the ITA projects started in 2016.

In total, 744 ITA projects in 16 sectors were started in 2016-2019 for the total cost-estimate value of 2.6 billion US dollars (Figure 32). The largest ITA volume was provided to such sectors as "National security and defence" (76 projects for the amount of more than 843 million US dollars), "Governance and civil society" (128 projects for the amount of more than 429 million US dollars) and "Recovery of Donbas and IDPs" (63 projects for the amount of 394 million US dollars).

Figure 32: Quantity and cost-estimate value of the ITA projects the implementation of which started in 2016-2019, by the sectors



Source: official website of the CMU, Diia¹⁰³

Following 2020, the directions of the ITA flows changed to a certain extent (Figure 33). The largest ITA volume was provided to such sectors as "Enhancement of the defence capacity" (only four projects, but for the amount of 265 million US dollars), "Decentralisation and promotion of regional development" (four projects for the amount of more than 76 million US dollars), "Development of the social infrastructure

and services" (20 projects for the amount of more than 74 million US dollars).

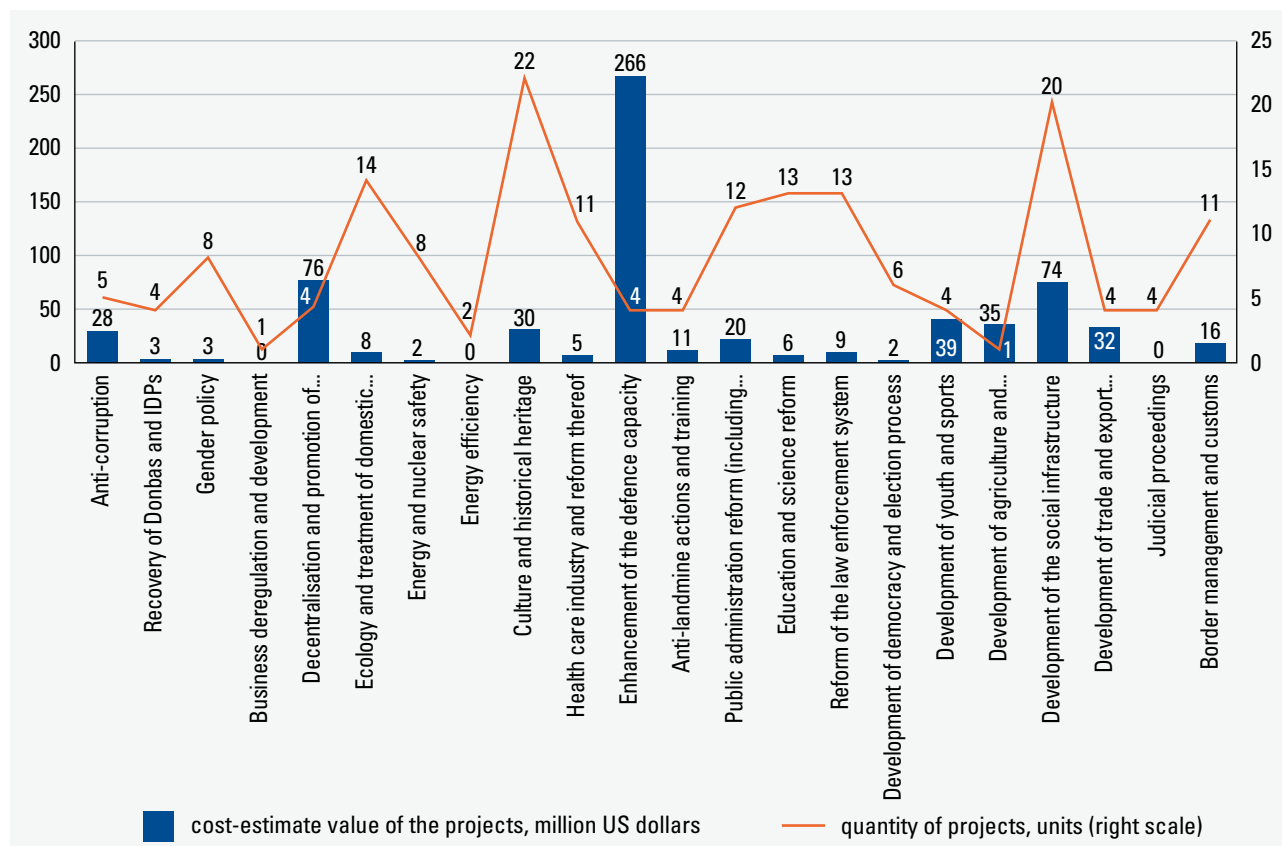
According to the CMU, following 2020, the ITA projects in progress in 2020 used 1.07 billion US dollars, including 446 million US dollars received from the USA, and 235.5 million US dollars received from the EU.¹⁰⁴ In total, these two donors cover 64% of the general volume of the ITA funds used within the applicable projects.

¹⁰³ <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>

¹⁰⁴ Analysis of Monitoring of the International Technical Assistance Projects for 2020, CMU, <https://www.kmu.gov.ua/diyalnist/mizhnarodna-dopomoga>, <https://drive.google.com/drive/folders/1BA1J90zVID5Kum5aucsTCmWCWwKhN5s>



Figure 33: Quantity and cost-estimate value of the ITA projects the implementation of which started in 2020, by the sectors



Source: official website of the CMU, Diia¹⁰⁵

In 2016-2020, considerable attention was paid to the sector “National security and defence” due to the armed aggression of Russia in the east of Ukraine. The largest number of the projects for the last five years was launched with the support of the EU (389 projects), the USA (131 projects) and the OSCE (97 projects). Based on the total cost-estimate value of the projects launched in 2016-2020, the major development partners are the USA (1.8 billion US dollars, which is 55%), the EU (694.9 million US dollars, or 21%) and Germany (282.6 million US dollars, or 8.6%), which makes 84.6% ITA funds in total.

INITIATORS

The principal initiator by the quantity of projects is the Ministry of Education and Science of Ukraine (MES). The largest quantity of projects is started annually at the initiative of the MES. The MES reported on 98 projects at the

end of 2020. According to the Information on the International Technical Assistance Provided to Ukraine following the Project Monitoring by the Secretariat of the Cabinet of Ministers of Ukraine in 2020, the MES cooperates with the USA, the EU, the UK, Norway, the OSCE, Germany, Canada, Switzerland, Poland, Turkey, Finland as well as the EBRD, the EIB in the following sectors: education and science reform; decentralisation and promotion of regional development; judicial proceedings; business deregulation and development; public administration reform.¹⁰⁶

The principal initiator of the ITA projects started in 2019-2020 based on the total cost-estimate value was the Ministry of Defence of Ukraine (Ministry of Defence). According to the Information on the International Technical Assistance Provided to Ukraine following the Project Monitoring by the Secretariat of the Cabinet of Ministers of Ukraine in 2020, the Ministry of Defence cooperates with the USA

¹⁰⁵ <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>

¹⁰⁶ <https://www.kmu.gov.ua/diyalnist/mizhnarodna-dopomoga>



as well as the OSCE, the EU, the UN in the following sectors: enhancement of the defence capacity; anti-landmine actions and training;

health care industry and reform thereof; border management and customs; development of the social infrastructure and services.

Insert: ITA Projects: Public Regulation

According to Resolution of the Cabinet of Ministers of Ukraine No. 153 dated 15.02.2002 *“On Creating the Uniform System for Raising, Using and Monitoring International Technical Assistance”*¹⁰⁷ (as amended and supplemented), the Ministries, other central and local executive authorities, the Council of Ministers of the Autonomous Republic of Crimea can submit requests for international technical assistance to the Secretariat of the Cabinet of Ministers of Ukraine. In its turn, the SCMU has to have strategic programmes based on these requests approved by the development partners.

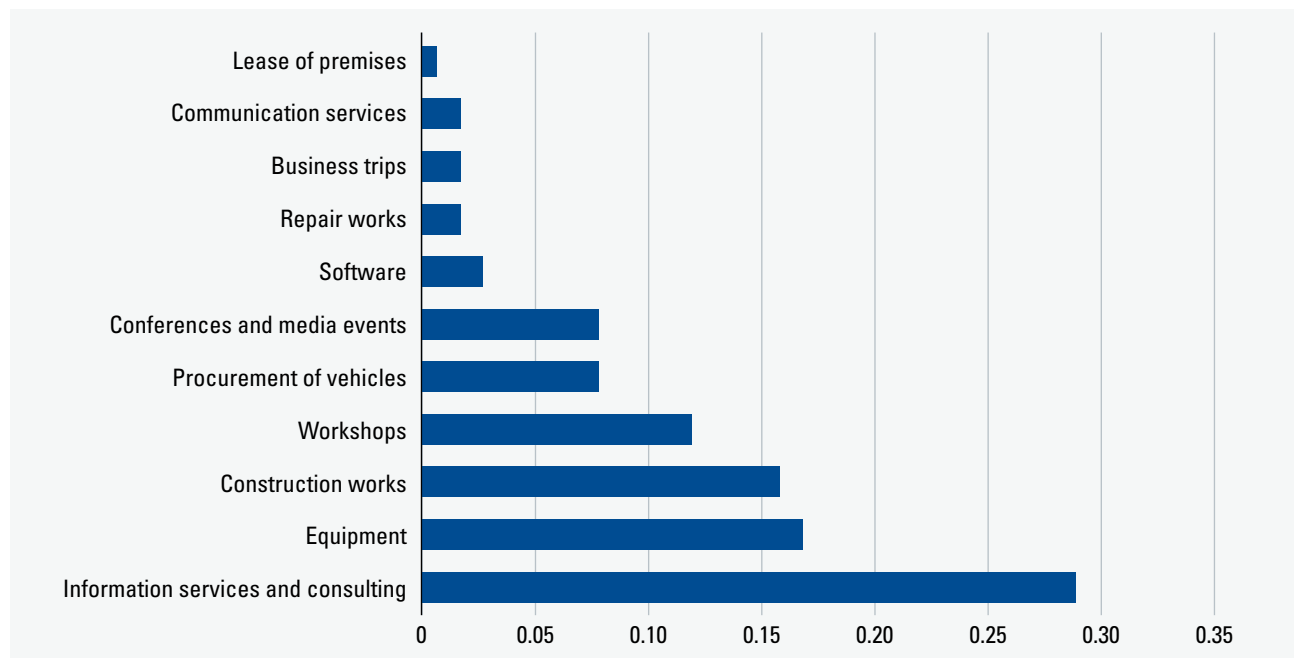
According to the Resolution, the strategic programme is a “document that sets the priorities of technical and economic cooperation between the development partner and Ukraine based on the analysis of the social and economic development problems of Ukraine. This document has been developed in accordance with the procedure and for the period approved by the development partner and the Secretariat of the Cabinet of Ministers of Ukraine.” In their turn, annual projects/programmes are annually formed jointly with the development partners and based on the strategic programmes.

ITA FOR THE AUTHORITIES: DIRECTION AND PERFORMANCE

According to Resolution No. 153, the ITA can be raised in various forms consistent with the law. Thus, according to the CMU, in 2019, the ITA was divided as follows by the

forms of assistance (Figure 34).¹⁰⁷ The largest amounts of the ITA were raised in the directions “Information services and communication”, “Equipment” and “Construction works”. The least demanded forms of assistance were “Communication services”, “Repair works”, “Business trips” and “Lease of premises”.

Figure 34: Scope of the ITA provided in 2019, by the forms of ITA



Source: official website of the CMU¹⁰⁸

Therefore, the ITA in 2016-2020 had various directions, such as support of transport development of the Dnipro, upgrade of the trolleybus

fleet, development of the sports infrastructure, improvement of access of vulnerable populations to social services, improvement of the

¹⁰⁷ Analysis of Monitoring of the International Technical Assistance Projects for 2019, CMU, <https://www.kmu.gov.ua/diyalnist/mizhnarodna-dopomoga>

¹⁰⁸ Analysis of Monitoring of the International Technical Assistance Projects for 2019, CMU, <https://www.kmu.gov.ua/diyalnist/mizhnarodna-dopomoga>



quality of health care services, better access to quality medical services in the area of advanced surgery. Quite a considerable part of the projects is aimed at maintaining peace and safety in Ukraine, redecorating premises at the educational facilities, introducing the package of thermal upgrade actions at the municipal pre-school educational facilities.

A lot of attention is also paid to enhancing the institutional capacity of governmental authorities of Ukraine via special experience exchange programmes as well as support of their technical re-equipment. It all means that implementation of the ITA projects has a positive impact upon provision of state services to the population, upon the quality of people's life, creates new personal development opportunities and favourable working and studying conditions, develops provision of electronic services to businesses and people by the public authorities, and facilitates peace and safety in Ukraine, which generally results in improvement of the social well-being.

In general, the system for raising, using and monitoring (regulating) the ITA in Ukraine is quite efficient, but there are still some issues that have to be resolved. In October 2016, the Ministry of Economy (the ITA coordinator then) supported by the EU Delegation launched the test version of the official ITA coordination portal of Ukraine called Openaid.¹⁰⁹ The portal had the largest data base of the international assistance projects in Ukraine, provided electronic document submission services and published pre-views of the actions and publications of the donors on technical assistance. On 4 April 2019, the Ministry of Economy with the support of the Better Regulation Delivery Office (BRDO) and IT Ukraine Association and its members as well as the Reform Support Team of the Ministry of Economy launched the updated version of the official ITA coordination portal of Ukraine called ProAID.¹¹⁰ Then the Ministry of Economy planned that the "data base of the projects will be continuously filled and updated whereas ProAID itself will be supplemented with new functions and data analytical tools."¹¹¹ However, after the functions of the ITA coordinator were

transferred from the Ministry of Economy to the SCMU (Resolution of the CMU No. 1072 dated 4 December 2019 "On Amending and Declaring Void Certain Acts of the Cabinet of Ministers of Ukraine"), ProAID ceased to be updated and finally stopped working. The SCMU informed that it was developing a new more convenient portal.

At present, there is no complete register of ITA projects, and information on the projects is available on the website of the CMU only as the list of the ITA projects registered with the SCMU as well as the list of reports of the beneficiaries included into the official reports of the CMU following the monitoring of the ITA projects.

These project lists do not have a unified presentation system; the project information is often filled in incorrectly, there are no performance indicators of the projects. Information on the projects is not often updated, and there is often no information on conformity of the projects to the national SDGs. At the same time, according to Resolution of the CMU No. 153, the Secretariat of the Cabinet of Ministers of Ukraine as the coordinator of the activity associated with raising international technical assistance shall facilitate formation of the strategic international technical assistance programmes in accordance with the SDGs without limitation, and also analyse conformity of the project to the tasks and actions set by the SDGs. The project proposals shall also contain references to the tasks and actions set by the SDGs.

The other challenges include:

- lack of the project priority system although this problem is expected to be resolved by means of the new three-tier ITA coordination system;
- unclear division of the ITA by its directions and beneficiaries with account of the national development priorities and national SDGs;
- insufficient focus on certain sectors, which need proper attention with account of the targets of the national SDGs, in particular, water supply and waste water disposal.

¹⁰⁹ <https://www.kmu.gov.ua/news/249637850>

¹¹⁰ <https://www.me.gov.ua/News/Detail?id=293e96fb-ee66-4738-9e60-efa2380b760b>

¹¹¹ <https://www.me.gov.ua/News/Detail?id=293e96fb-ee66-4738-9e60-efa2380b760b>

ANALYSIS AND DIVISION OF THE ITA BY THE SDGS

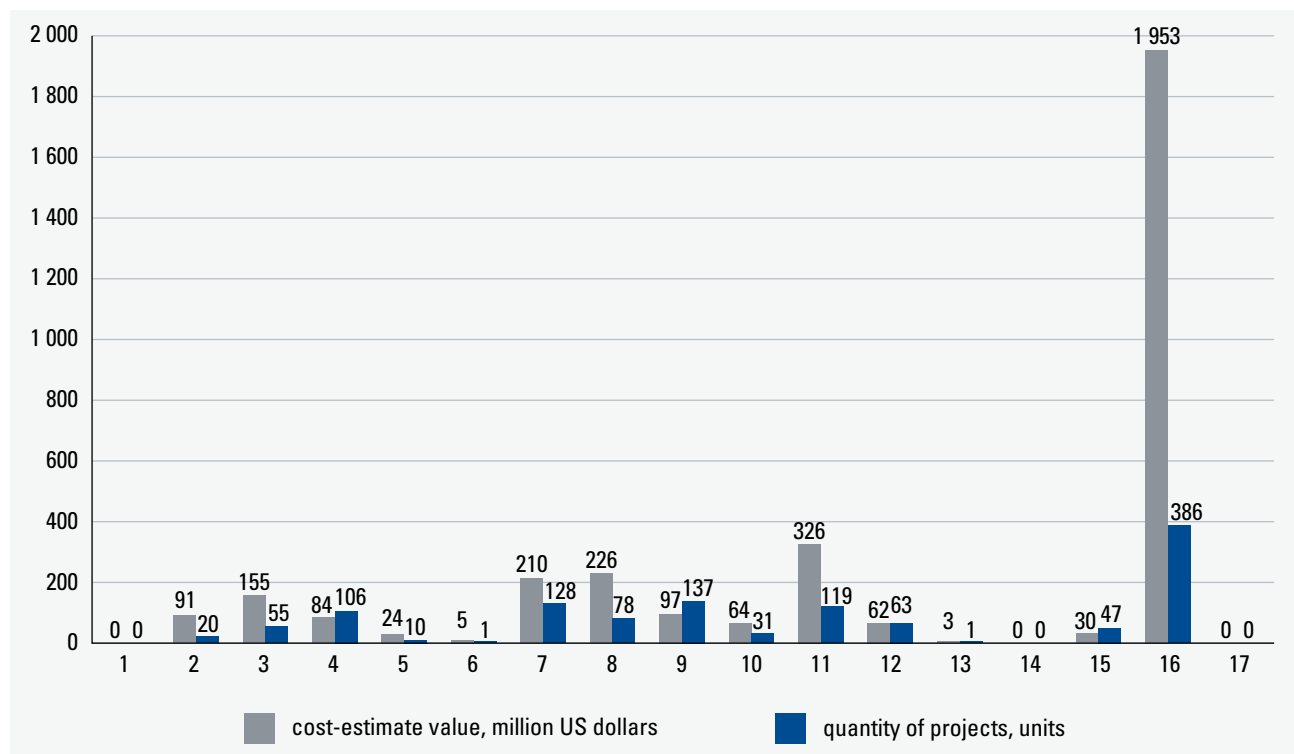
In general, the analysis demonstrates that the ITA in Ukraine is directed at achievement of the SDGs (Figure 35).¹¹² In 2016-2020, most attention was paid to SDG 16 “Peace, justice and strong institutions,” which was explained by the complicated situation in the east of Ukraine as well as the need to improve the capacity of central and local authorities. In total, implementation of SDG 16 required almost 2 billion US dollars.

Also, considerable attention was paid to SDG 11 “Sustainable cities and communities.” SDG 11 was allocated 326 million US dollars

for implementation of projects in such sectors as “Regional development,” “Culture and historical heritage,” “Development of youth and sports,” “Decentralisation and promotion of regional development” and partly the sector “Development of the social infrastructure and services.”

However, our analysis demonstrates that some SDGs were omitted. In particular, they are SDGs 1, 6, 13, 14 and 17. Whereas SDG 1 “No poverty” actually is within the scope of responsibility of the government in the first place, technical assistance for SDG 6 “Clean water and sanitation” would be very useful with account of how acute this issue is in certain regions.

Figure 35: Division of financing of the ITA projects by the SDGs in 2016-2020



Source: expert opinion based on the data from the official websites of the CMU and Diia¹¹³

Below some ITA projects are considered in more detail in terms of the SDGs.

Goal 2 “Zero hunger, development of agriculture”. In 2016-2020, in pursuance of SDG 2, 20 projects were started in Ukraine in two sectors, “Agriculture” and “Development of agriculture and land market.” The purpose

of the projects is to grant Ukraine consulting assistance for further development of the agrarian policy; to increase the scope of investment, to improve performance, level of employment and income in the agricultural sector; to improve well-being of the rural communities and vulnerable categories of manufacturers.

¹¹² In this section, the authors of the report tried to compare the areas of the ITA projects with 17 sustainable development goals. The project financing was divided accordingly. The projects with the financing of less than 5 million US dollars (equivalent) were divided by the SDGs based on the project areas. At the same time, biggest projects were analysed in more detail, with a more thorough attempt to assign financing to the SDGs.

¹¹³ <https://data.gov.ua/dataset/04fa817d-5c92-4e0d-b1b5-2dcf720adc36/resource/f00b8124-7ea6-4d8d-ad9b-6089c911ff0a>



In 2020, Ukraine started to implement USAID Agriculture and Rural Development Support (AGRO), which was important for the country, in pursuance of SDG 2. The programme is aimed at accelerating economic development of the rural communities of Ukraine in need of most support. It includes improvement of management in the agricultural sector, which will facilitate development of more efficient, modern and profitable micro, small and medium-sized agricultural enterprises that will be successfully integrated into the competitive Ukrainian and international markets.

In general, according to the experts, implementation of SDG 2 takes up financing of the ITA projects in the amount of 91 million US dollars (equivalent).

Goal 3 “Good health and well-being”. Ukraine has problems of access to quality and efficient medical aid, especially in the countryside. The pandemic of COVID-19 added complexity to the situation, so it is extremely important for Ukraine to raise additional resources to achieve SDG 3. In 2016-2020, in pursuance of SDG 3, 55 projects were started in Ukraine in two sectors, “Health care” and “Health care industry and reform thereof,” for the total amount equivalent to 155 million US dollars.

The major projects aimed at achieving SDG 3 were “HealthLink: Accelerating Ukraine’s Efforts to End HIV/AIDS”; “Supporting the Health Care Reform”; “Safe, Affordable and Efficient Medicines for the Ukrainians (Safe and Affordable Medicines) – SAFE Med”.

Goal 4 “Quality education”. The educational sector in Ukraine is suffering from a number of problems. In particular, they include poor quality of school education, the level of which varies subject to the type and location of the educational establishment. Moreover, access to quality education is uneven, and the educational infrastructure is mostly obsolete. In 2016-2020, implementation of 106 projects in the sector “Education and science” was started. The international technical assistance for these projects was directed at enhancement of the research and innovation sector in Ukraine; support of Ukraine’s participation in Horizon-2020 Programme; universal access to quality education, elimination of territorial and

regional differences in the quality of education; development of the professional capacity of academic and research staff.

The major ITA started within SDG 4 were “Finnish Support of the Ukrainian School Reform” and the EU project “Supporting Ukraine’s Participation in Horizon 2020, the EU Framework Programme for Research and Innovation”.

In total, implementation of SDG 4 is estimated to take up financing of the ITA projects in the amount equivalent to 84 million US dollars.

Goal 5 “Gender equality”. Gender equality is the important task for Ukraine. Ten projects in the sector “Gender policy” are aimed at achieving SDG 5 in Ukraine for the total amount of 24 million US dollars. The main projects in pursuance of SDG 5 are the project “Enhancing the National and Regional Mechanisms for Constructing the Adaptive, Accountable and Economically Efficient System for Counteraction to and Prevention of Gender-Based Violence” (financed by the UK) and the project “Comprehensive Approach to Resolving Problems of Violence against Women and Girls in Ukraine” (financed by Canada).

Goal 6 “Clean water and sanitation”. The issue of quality water supply and waste water disposal services for the population is extremely pressing in Ukraine, especially in the countryside. One third of the sewage and water supply systems are in disrepair and deteriorated while most rural settlements have no access to these services at all. Therefore, the assistance to perform the tasks of SDG 6 is of utmost importance. However, in 2016-2020, only one EU project “Improving the Environmental Situation in the Shatsk National Natural Park by Installing the Sewage System in the Settlements around Lake Svitiaz” was started in Ukraine in pursuance of SDG 6. In total, according to the experts, SDG 6 is going to take up 5 million US dollars.

Goal 7 “Affordable and clean energy”. It is very important to achieve SDG 7 for Ukraine since the level of energy intensity of the GDP in the country is very high. 128 projects were started in the sector “Energy and energy-efficiency” and partly in the sector “Nuclear safety” in



Ukraine in pursuance of SDG 7 for the total amount of equivalent to 210 million US dollars. In general, the ITA projects are aimed at implementation of energy efficiency actions in budget institutions; upgrade of the outdoor illumination system and partly treatment of radioactive waste. However, the major projects in pursuance of SDG 5 were the NEFCO project "Centralised Heating Supply in Lviv – Installation of Individual Thermal Plants" and the Energy Security Project supported by the USAID.

Goal 8 "Decent work and economic growth".

In 2016-2020, 78 projects were started in Ukraine in pursuance of SDG 8 in the following sectors: "Banking and finance", "Economic development and trade", "Business deregulation and development", "Development of trade and export potential", and partly in the sectors "Public administration reform" and "Manufacturing industry and SMEs" for the total amount of 226 million US dollars. The ITA projects are aimed at stable and universal economic growth in Ukraine; support of financial sector reforms; more financing opportunities for the real sector of economy; support of permanent development of the market financial institutions and expansion thereof. The major ITA projects were the EU project "EU Support to Ukraine to Re-launch the Economy (EU SURE)" and the US projects "Financial Sector Transformation in Ukraine", "Economic Support of Eastern Ukraine" and "Competitive Economy of Ukraine".

Goal 9 "Industry, innovation and infrastructure".

Economic development of Ukraine requires the quality and reliable infrastructure, including the road, transport, energy and innovation one in the first place. 137 projects were directed at SDG 9 in such sectors as "Communication and ICT", "Transport and infrastructure" and partly "Education and science" and "Industry and SMEs". The projects provided for development of urban public transport, development of river transport, modernisation of the motor road system, and improvement of the road safety. One of the main ITA projects in pursuance of SDG 9 was the project financed by Sweden "Support of Electronic Government for Decentralisation in Ukraine" (EGOV4UKRAINE) and the EU projects "Support of the National Public Broadcaster of Ukraine" and "Support

of the Ukrainian Authorities in Development of the National Transport Model and Master Plan".

In general, implementation of the SDG is expected to take up financing in the amount of 97 million US dollars.

Goal 10 "Reduced inequalities".

Ukraine has some social inequality, in particular, in work pay and accessibility of social services. In 2016-2020, 31 projects in the sector "Social infrastructure and services" were started in Ukraine in pursuance of SDG 10 (50% of the aggregate financing for all the applicable projects except for one were used to assess the aggregate financing). At the same time, all the projects that pertain to the goal are also directed at achieving SDG 3 and SDG 11, which include the rest of financing for the projects. Also, SDG 10 can partly include the UN project "Supporting Social Protection and Responsible Parenting in Ukraine", the IBRD project "Social Services in the Community" and German project "Promotion of Social Infrastructure Development – Improvement of Rural Basic Health (USIF-VII)" (financing thereof is considered with the weight of 30%). In total, the funds directed at achievement of SDG 10 can be estimated to make 64 million US dollars.

Goal 11 "Sustainable cities and communities".

According to the experts, aggregate financing of SDG 11 is 326 million US dollars for 119 projects in such sectors as "Regional development", "Culture and historical heritage", "Development of youth and sports", "Decentralisation and promotion of regional development" and partly the sector "Development of the social infrastructure and services". In particular, these projects are directed at supporting the natural reserves in Ukraine, helping the local self-government authorities improve management of the resources and services consistent with the community priorities, increasing the role of the cultural heritage objects as a tourist direction; increasing performance of the youth work and quality of the youth policy at the local and national levels. The major projects in 2016-2020 within SDG 11 were the US projects "Decentralization Offering Better Results and Efficiency" (DOBRE), "Ukraine National Identity Through Youth" and the EU project "U-LEAD with Europe: Ukraine – Local Empowerment, Accountability and Development Programme".



Goal 12 “Responsible consumption and production”. In 2016-2020, 63 projects were started in Ukraine in pursuance of SDG 12 in the sector “Ecology and treatment of domestic waste” and partly in the sector “Environment” for the total amount of equivalent to 62 million US CLJA. SDG 12 is to be achieved with the EBRD project “Finance Technology Transfer Centre for Climate Change (FINTECC)”, which provides for supporting the climate equipment market at the expense of various tools and the German project “Best Available Techniques (BAT) for Ukraine”, which is financed by Germany.

Goal 13 “Climate action”. In 2016-2020, the project “Consulting Enterprises on Energy Efficiency” was started in Ukraine in pursuance of SDG 13 (its financing for this Goal was considered with the weight of 50%). It is caused by the fact that this project pertains to two goals at the same time, SDG 7 and SDG 13. In total, implementation of SDG 13 requires 5 million US dollars.

Goal 15 “Life on land”. 47 projects in the sector “Environment” are directed at achievement of SDG 15 (their financing is considered with the weight of 50% whereas the other part mostly pertains to SDG 12). In 2016-2020, implementation of SDG 15 in Ukraine was estimated to take up 30 million US dollars (equivalent). The largest project partly directed at achieving SDG 15 was the project financed by Germany “Supporting Natural Reserves in Ukraine”, the purpose of which was to improve management and performance of operation of the specific natural reserves in Ukraine and to increase the

level of the decisions made on creating natural reserves in the local communities.

Goal 16 “Peace, justice and strong institutions”. In 2016-2020, most attention was paid to SDG 16 “Peace, justice and strong institutions” due to the Russian aggression in the east of Ukraine. In particular, the principal technical assistance within SDG 16 was provided in the following sectors: “National security and defence”, “Governance and civil society”, “Recovery of Donbas and IDPs”, “Enhancement of the defence capacity”, “Anti-landmine actions and training”, “Anti-corruption”, “Judicial proceedings”, “Reform of the law enforcement system”, “Border management and customs”, “Development of democracy and election process”, and partly in the sectors “Energy and nuclear safety” and “Public administration reform”.

The principal projects in pursuance of SDG 16 were three US projects, namely: “Ukraine Security Assistance Initiative (USAI Programme)”, “Ukraine Security Assistance Initiative 2019 (USAI-2019 Programme)” and “Ukraine Security Assistance Initiative 2020 (USAI-2020 Programme)”. Their purpose was to increase the tactical efficiency and mobility of the Armed Forces of Ukraine to perform the military tasks within the peace-building and security operation, and to improve the professional skills of the Armed Forces of Ukraine and to bring them into conformity with the international and US standards. In total, implementation of SDG 16 was estimated to require almost 2 billion US dollars.



Chapter 6.

FINANCIAL SYSTEM

The developed financial market that helps redistribute financial flows pursuant to the needs of the market players is of great significance for development finance. The main players of the financial market of Ukraine are market players and regulatory authorities. There are banks, insurance companies, brokers, asset management companies, non-state pension funds and other financial service providers. The regulatory authorities in the market are the National Bank of Ukraine (NBU) and the National Securities and Stock Market Commission (NSSMC).

The NSSMC regulates operations of the securities market and its players, including:

- Professional players: securities traders, market operators, depositories, asset management companies, administrators, non-state pension funds.
- Companies issuing securities.

The National Bank regulates the banking activity. It has also been regulating operations of insurance companies, credit unions, leasing companies and other financial institutions (except for players of the securities market) since 1 July 2020.

The policy of the regulatory authorities on development of the financial market is defined by the Strategy for Developing the Financial Sector of Ukraine until 2025 approved by the NBU and the NSSMC, as amended and supplemented in March 2021.¹¹⁴ The financial sector is to be developed in five principal directions, namely: financial stability, macroeconomic

development, financial inclusion, inclusion of financial markets, innovation development. The strategy does not contain direct references to the SDGs, but the mission of the Ukrainian financial sector according to the Strategy is to “be a driver of *sustainable* and inclusive development of the economy of Ukraine”. As for macroeconomic development, the targets of the Strategy including, without limitation, facilitation of lending to the economy and creation of conditions for raising long-term financing into the economy. It particular, it provides for an increase in the scope of bank and non-bank lending, more loans to the SMEs, distribution of the “classic” investment funds, better access to venture financing, growth of assets of non-state pension funds and life insurance volumes.

In its policy for sustainable development, the NBU is already taking specific actions in this direction. Thus, in November 2020, the NBU joined the Sustainable Banking Network, and in April 2021, the NBU and International Finance Corporation agreed upon cooperation in the area of green and sustainable financing.¹¹⁵ The NBU is planning to prepare the National Bank’s strategy for green and sustainable financing and to develop respective lending standards with the support by the IFC. It is already provided for by the framework for the monetary and lending policy of the NBU for 2022 that the NBU will facilitate sustainable financing development, develop tools considering climate risks in economic forecasting and macroprudential policy. As of September 2021, the NBU still has not published other programme documents in this area.

¹¹⁴ <https://www.nssmc.gov.ua/document/?id=12104372>

¹¹⁵ <https://bank.gov.ua/ua/news/all/natsionalniy-bank-ta-ifc-spilno-pratsyuvatimut-nad-rozvitkom-zelenogo-finansuvannya>



Growth of the scope of long-term resources in the economy is a critically important condition for financing of the sustainable development goals because the payback period of the projects in pursuance of the SDGs generally exceed one or two years. Today the banks mostly raise funds and lend to enterprises for shorter periods.

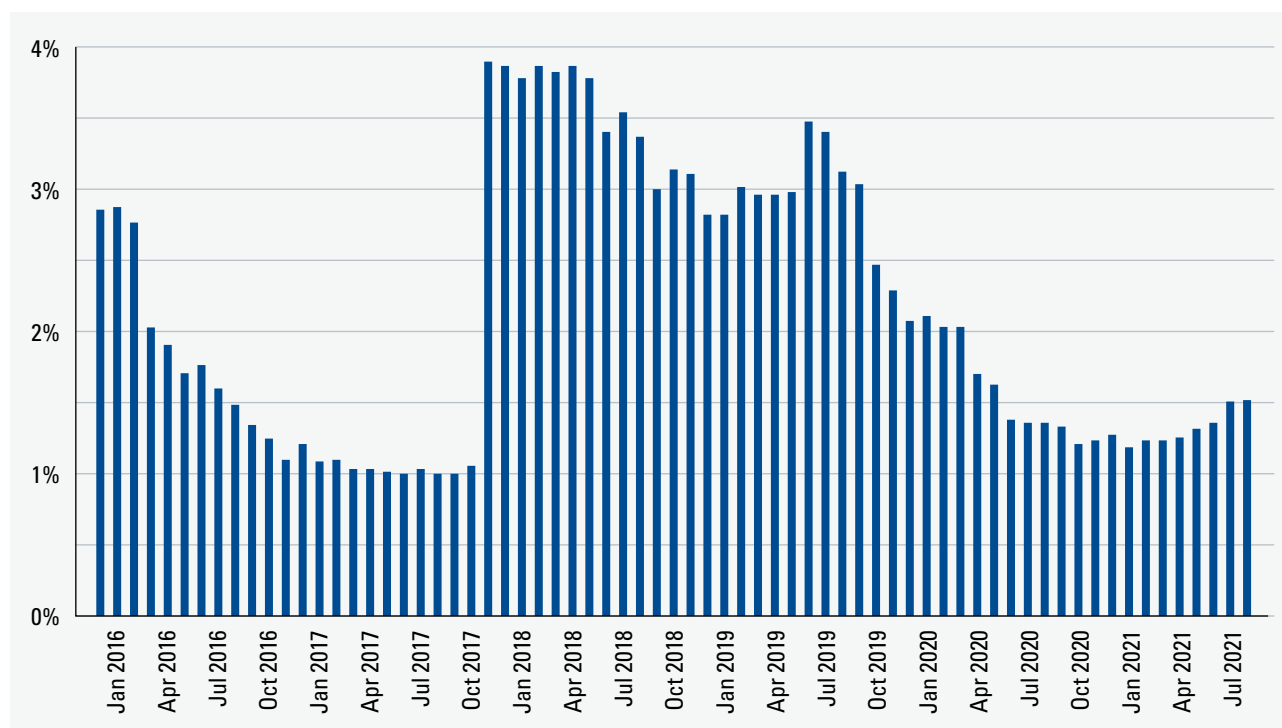
In 2021, there was a debate on introduction of the defined contribution pension system, and the respective draft law was registered with the parliament. The supporters of this idea insist on expedience of the second level of the pension system to ensure better payments to future pensioners and create the inflow of the long-term capital to the stock market. The opponents of the idea claim that there are no investment tools for investment of defined contribution funds, and there are high risks of

losing the funds due to possible inflation and devaluation.

Moreover, the President of Ukraine has initiated the idea of establishing the Future Generation Fund at the expense of the rental charges, and the respective draft law has already been submitted to the parliament. This initiative is potentially capable of improving accessibility of long-term financing, but everything will depend on efficient introduction and accessibility of investment tools.

As Figure 36 shows, some of the deposits exceeding two years decreased in 2020, and did not exceed 1.5% in 2021. The same way, the share of new loans exceeding one year is quite low and has not exceeded 15% for the last three years (Figure 37).

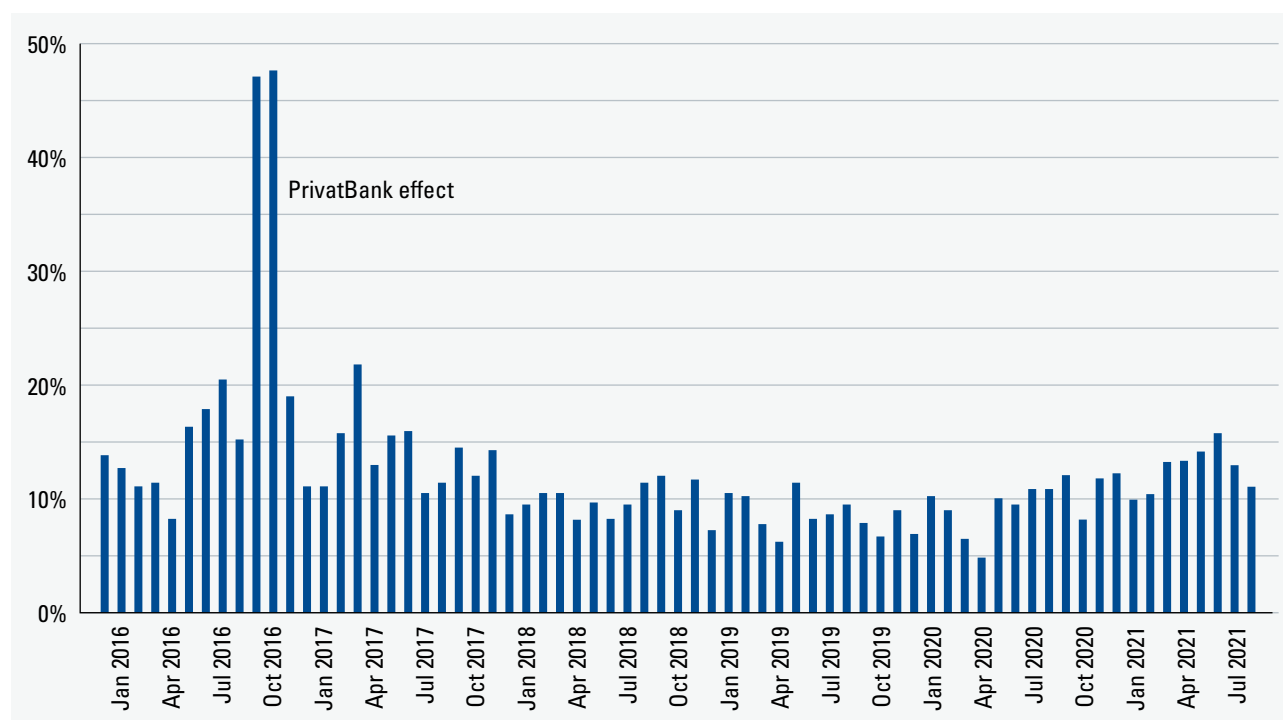
Figure 36: Share of the available deposits for the period of more than two years (of the total scope of the residents' deposits)



Source: own calculations based on the data of the NBU

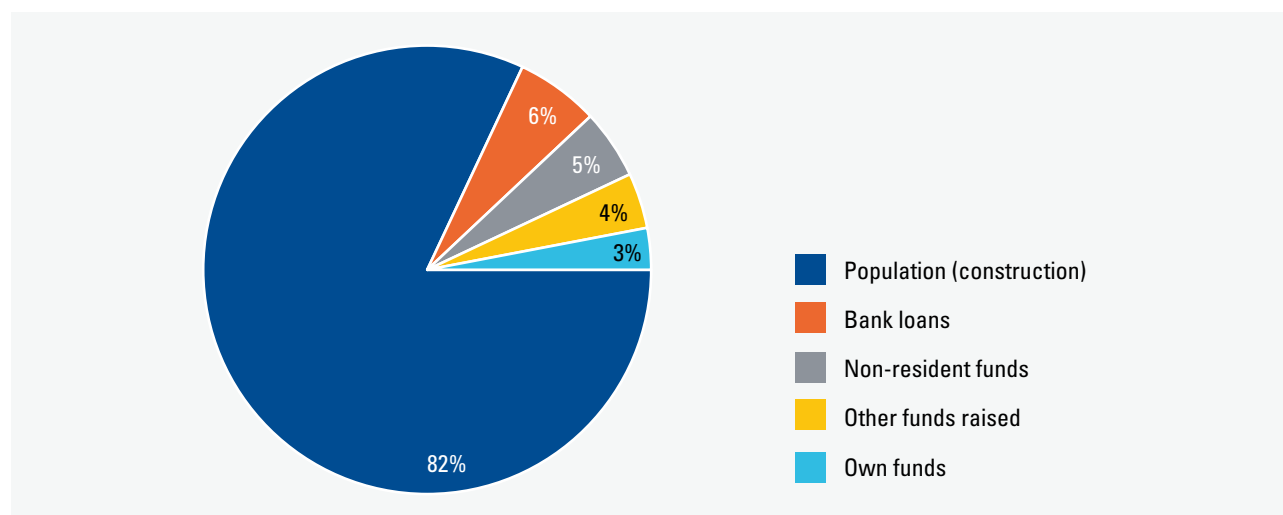
According to the Statistics Service, more than 80% of the capital investment in 2020 was financed at the expense of own funds of enterprises and only 5% – with the loans of the resident banks (Figure 38). However, even bank

loans for operations release circulating funds of enterprises, which can be further used as capital expenditures, namely the ones supporting the SDGs.

Figure 37: Share of new loans for the period of more than a year

Note: The data on the scope of new loans granted for the period were used to make the chart because the NBU's data on the loan balance for the period were provided including the non-performing loans, which are mostly long-term. Loans for shorter terms must be refinanced more often, so the share of new loans for longer periods is materially lower than the share of long-term loans based on the loan balance to be repaid.

Source: own calculations based on the data of the NBU

Figure 38: Private capital investment by the financing source in 2020

Note: The private capital investment is all the investment except for the one financed from the state and local budgets, and the non-resident funds mean the funds of direct foreign investors and non-resident banks; bank loans are bank and other loans less the loans from non-resident banks.

Source: own calculations based on the data of the Statistics Service

According to the experts, bank loans can be provisionally divided by the sustainable development goals if it is assumed that raising more loans for the enterprises with the specific type of economic activity is directly connected with an increase in financing of the respective SDGs (Figure 39). As it can be seen in the Figure

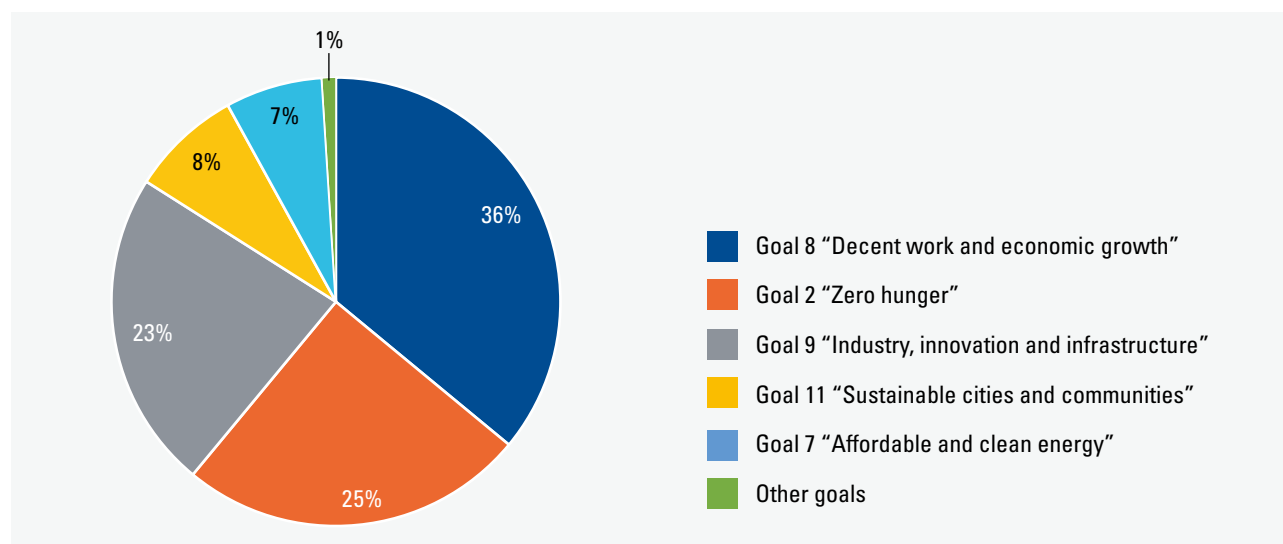
above, the bank loans have the biggest potential to support Goal 8 (according to the experts, they mostly include loans to the enterprises from such sectors as trade, mining production, some types of the processing industry and professional services), Goal 2 (agriculture and food industry) and Goal 9 (processing industry,



construction and transport infrastructure in the first place). Goal 11 (it includes loans to representatives of such sectors as hotels, real estate transactions, tourism as well as 50% of loans

for construction and mass media) and Goal 7 (it includes 50% of loans to manufacturers of electric power) are less represented in the loan portfolio.

Figure 39: Division of bank loans to economic operators by the sustainable development goals, as of 1 August 2021



Note: the balance of loans to legal entities and IEs including non-residents, less non-performing loans as of 1 August 2021. Division by the SDGs by the main type of the recipient's economic activity. Source: Own calculations based on the data of the NBU

In total, the scope of bank financing of the non-financial corporations remains limited. The total scope of the debt for the performing bank loans to the non-financial corporations made 440 billion Ukrainian hryvnias as of 1 August 2021 or 21% of the gross value added of the non-financial corporations in 2020. For comparison, in all the EU countries (for which Eurostat has data on the added value of the non-financial corporations for 2019), except for Romania and Ireland, the scope of bank loans to the resident non-financial corporations exceeds 100% of the GVA (without account of the loans raised from the banks of the other EU countries). The general indicator for the eurozone made 237% (loan balance in July 2021 for the GVA of the non-financial corporations of the eurozone for 2020).

The loans granted to individuals can also potentially facilitate achievement of the SDGs by levelling temporary income fluctuations and financing purchase of accommodation and durable goods, but cannot increase the level of household income. However, these loans also remain limited (183 billion Ukrainian hryvnias or disposable household income for three weeks of the second quarter of 2021). Moreover, the interest rates on consumer loans are high (30%

per annum in July 2021), which affects the paying capacity of households as borrowers in the mid-term.

At this stage, the non-banking financial sector has the considerably smaller potential to finance the SDGs. Financial companies, credit unions and pawnshops can credit the economy concurrently with banks. However, the balance of financial companies' loans to legal entities in June 2021 made only 48.9 billion Ukrainian hryvnias whereas loans of credit unions for business needs made 0.4 billion Ukrainian hryvnias. The interest rates on the household loans (except for the loans granted by credit unions) were higher than bank ones. For instance, the average rate for the pawnshop loans to households made 301% per annum during the first half of 2021.

The main function of insurance companies is to take various risks faced by the enterprises and households for a fee. At the same time, insurance companies have to accumulate considerable funds to be able to fulfil their obligations to the insured. Life insurance companies potentially accumulate most reserves since the gap between payment of the insurance premium and the insurance payment may be



decades. However, insurance companies' payments to individuals generally help achieve SDG 1 and SDG 10. The reserves accumulated by insurance companies are one of the sources of long-term financing of the SDGs. In the USA, insurance companies hold more than 20% of corporate bonds.¹¹⁶ In practice, financial assets of (risk and life) insurers in Ukraine made 37 billion Ukrainian hryvnias.¹¹⁷ Only 14 billion Ukrainian hryvnias out of them were long-term investment (due in more than a year). Moreover, the considerable share of these assets is investment into bank deposits and government securities.

The same way, the non-state pension funds receive contributions from their participants and accumulate assets for future pension payments. They could also be a source of long-term financing of the economy. However, this potential still has not been unlocked. According to the NSSMC, as of the end of 2020, the assets of the non-state pension funds exceeded 3.56 billion Ukrainian hryvnias, including 3.07 billion Ukrainian hryvnias or more than 86% invested into government securities (DGLB) and bank deposits.¹¹⁸

Ukraine formally has collective investment schemes, securities market operators and other participants of the capital market, but they practically do not perform their functions. The index of the Ukrainian stock exchange is made of six shares only (the PFTS index includes the same six shares and shares of Ukrtelecom), and the total scope of trade in shares at the Ukrainian stock exchanges made 594 million Ukrainian hryvnias in 2020. The DGLB took up 98% of the total scope of trade at the Ukrainian stock exchanges in 2020 or 329 billion Ukrainian hryvnias. The relatively liquid DGLB market makes it easier to raise funds to finance the state budget, but it does not help the private sector. For reference, during

the first minute after the exchange auction was opened in the USA on 17 September 2021, the Microsoft shares found new holders for the total amount of 1.5 billion US dollars.¹¹⁹

Operations of collective investment schemes (CIS/investment funds) potentially make securities more accessible for the broader public and can reduce the risks associated with investment into shares or bonds of specific companies. Therefore, it gets potentially easier to raise capital. In other countries, such investors hold most shares of the largest enterprises. For instance, such institutional investors as investment funds, insurance companies and pension funds jointly owned 80% of the shares of the largest public American companies that pertain to S&P 500 and 58% of the shares of the euro-zone companies from S&P Euro pool in 2017.¹²⁰

The CIS industry is formally quite developed in Ukraine. According to the NSSMC, there were 1,388 CISs in Ukraine as of the end of 2020, with the total assets of 423 billion Ukrainian hryvnias. However, the classic CIS function was only performed by several dozens of the funds, which raised funds from the public. The overview of the public CISs from the Ukrainian Association of Investment Business covered 20 funds with the total net assets of 192 million Ukrainian hryvnias as of August 2021¹²¹ whereas the scope of assets of the CISs other than non-diversified ones (diversified, specialised and qualification) made 383 million Ukrainian hryvnias as of the end of 2020. The other assets of the CISs were non-diversified CISs that held the assets of a small number of companies and did not perform functions of "classic" CISs.

Some investors provide financing to the companies at the early development stage (venture financing), but agreements are often beyond the legal framework and financial system of Ukraine.

¹¹⁶ As of the end of 2017 https://www.centerforcapitalmarkets.com/wp-content/uploads/2019/03/CCMC_InsurancePaper_v2.pdf

¹¹⁷ According to the consolidated balance of the insurance companies published by the NBU, amount of assets for items 1030, 1035, 1160, 1165 of the balance sheet

¹¹⁸ https://www.nssmc.gov.ua/wp-content/uploads/Documents/8f04fa9f-6a71-4481-af0f-4cc485a61c13/RZ_2020.pdf

¹¹⁹ Of course, it is an exception to the rule. Such scope of trade can be achieved in several hours on a very calm day.

¹²⁰ <https://www.pionline.com/article/20170425/INTERACTIVE/170429926/80-of-equity-market-cap-held-by-institutions>

¹²¹ <https://www.uaib.com.ua/analituaib/publ-ici-month/shchomisychniy-oglyad-diyalnosti-publichnih-isi-v-ukrajini-vidkriti-intervalni-zakriti-fondi-serpen-2021-roku>



Chapter 7.

INVESTMENT BY STATE ENTERPRISES

The state owns 3,595 enterprises, including 1,850 working ones. The rest either do not work or are going bankrupt or are located in the uncontrolled territory.¹²² The considerable share of state enterprises historically originate from state enterprises of the USSR that have not been privatised for the years of independence. This can explain a large number of various enterprises that are still state-owned. The others have been established during the years of independence to perform state functions

that can be fully or partly performed on a self-supporting basis. Moreover, privatisation in Ukraine has been very slow although each subsequent government promises to complete it soon, but these plans traditionally fail. Thus, one can assume that the role of enterprises in the public sector will be major in the next years, which makes it necessary to analyse their contribution into financing of implementation of the sustainable development goals.

Insert: Assessment Methodology

For the analysis purposes, we have defined the investment by the state companies in 2017-2020 as changes in the initial value of fixed assets during a year (item 1011 of the corporate balance sheet, Form 1). In case the fixed assets were reduced, the investment was equal to zero. The data of financial statements 3895 for 2016-2020 were taken from the portal of state enterprises of Ukraine.¹²³ As for the enterprises (for which data for 2020 are absent above), the financial reporting data for 2020 were uploaded from the portal data.gov.ua, where they were first published by the State Tax Service as open data in 2021.¹²⁴

All the state enterprises were classified by the main sections of the classifier of types of economic activity (KVED). The principal KVED of state enterprises shows the type of activity from which the enterprise has gained most revenues. We divided the investment by the sustainable development goals based on this KVED. Some state enterprises operate in several business segments (for instance, Ukrainian Railways) so the investment can pertain to different sustainable development goals. However, operations of the state enterprises were not analysed by segments. Data for specific enterprises with the largest changes in the fixed assets were adjusted with account of the enterprise's reorganisation or revaluation of the fixed assets due to the adoption of the international financial reporting standards.¹²⁵ The indicators by some types of activity were assigned to several SDGs. Individual division was performed for some enterprises (Ukrspirt, Enerhoatom, Ukrhydroenergo).

State enterprises generally finance investment pursuant to the mid-term investment plan (for three to five years) and the annual financial plan approved by the corporate governing body (for most enterprises, that is the Cabinet of Ministers or one of the linear ministries).

The financial plan is made in accordance with the Procedure for Drawing Up, Approving and Monitoring the Implementation of the Financial Plan of the Business Entity of the Public Sector.¹²⁶ According to the procedure, the investment for the next year is made in the

¹²² Financial statements of which can be found in the data base of the Portal of State Enterprises of Ukraine <https://prozvit.com.ua/balance-finance/>

¹²³ Portal of State Enterprises of Ukraine <https://prozvit.com.ua/balance-finance/>

¹²⁴ The financial statements (statement of financial position (balance sheet), and profit and loss and other comprehensive income statement (profit and loss statement) submitted as an attachment to the reporting (reporting new) tax statements for the annual tax (reporting) period pursuant to Clause 46.2 of Article 46 of the Tax Code of Ukraine, <https://data.gov.ua/dataset/24069422-5825-41f6-81f7-89567e5e2ac9>

¹²⁵ Down to zero for the reorganised and newly-established enterprises, to the fixed assets received pursuant to the financial statements, capital investment pursuant to the financial plan or report on implementation thereof subject to the available information

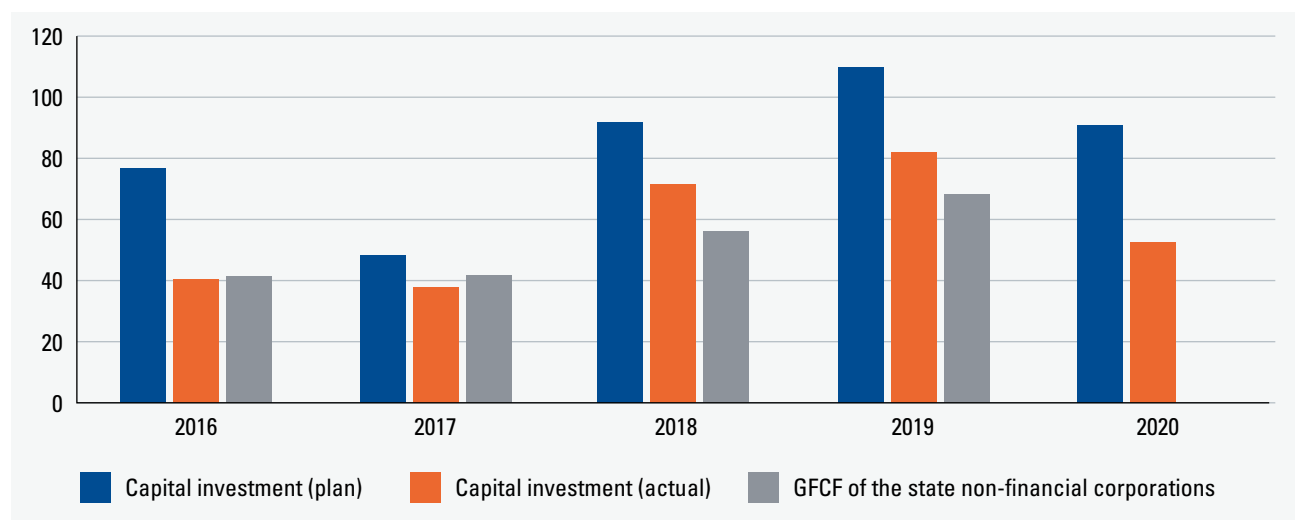
¹²⁶ Approved by Order of the Ministry of Economic Development of Ukraine No. 205 dated 02.03.2015 <https://zakon.rada.gov.ua/go/z0300-15>

volume set by the mid-term investment plan. The financial plan shall also provide for sources of capital investment financing.

According to the Ministry of Economy, the scope of actual capital investment by the state enterprises with the financial plans made only 75-80% of the plan in 2016-2019, which is often connected with slow procurement procedures and limited financial resources (Figure 40). The coronacrisis of 2020 made the state enterprises revise and reduce their investment plans.

In addition to the investment projects that can facilitate investment development goals, the state enterprises additionally spend funds to improve qualifications of their staff, cultural events and support of the communities in which they operate.¹²⁷ The largest state companies publish reports on expenses for social goals.¹²⁸ At the same time, such information is published in different formats so it is hard to consolidate. Moreover, the scope of such expenses is considerably lower in comparison with the investment expenses.

Figure 40: Capital investment by state enterprises



Source: Ministry of Economy, Statistics Service

The data show that the main sources of investment financing are financial results of enterprises and concessional loans from the IFIs. However, own financing is limited for several reasons. In 2020, 312 SEs were loss-making so they are very limited in their ability to finance investment. The main causes of losses of the state enterprises are inefficient management and service rates set at the level lower than the net cost. In order to improve quality and performance of management, the government started to introduce the corporate management reform at the SE: the specialised supervisory boards were appointed at the major SEs, and the property policy was approved at a number of enterprises. At the same time, the reform is now being implemented based on the principle “one step forward, two steps back”. There were certain changes in establishment of tariffs. Thus, for several years, the household

and industrial gas tariffs were approximate to the market level, which improved the financial results of Naftogaz against the background of implementation of corporate management changes at the enterprise. However, the heating and passenger carriage tariffs remain lower than the net cost for social reasons.

The reason for limited financing of investment by the profitable enterprises is that the CMU adopts an annual resolution on dividing the dividends, and most enterprises give up to 80% of their profit to the budget. In 2020, the ratio of profit to be transferred to the budget was reduced due to the coronacrisis: the SEs only had to transfer 50% of their revenues for 2019 as dividends, except for:

- PrivatBank JSC CB, for which the transfer ratio was 75%.

¹²⁷ Such support is not always monetary. In the opinion of the Ukrainian Railways, such support is suburban services without compensation for losses by the local authorities whereas Ukrposhta provides services to rural communities.

¹²⁸ For instance, Ukrposhta, Ukrainian Railways, Naftogaz Group and Enerhoatom



- The ration of 30% was set for Ukrhydroenergo PrJSC, Ukrenergo NEC, and Ukrainian Railways JSC.
- NAK “Naftogaz of Ukraine” JSC was set the basic ratio and net profit to be allocated for dividends at 95%.

Bank lending for the SEs remains limited, the same way as for provide company. However, there have been certain changes in financing of investment by certain enterprises for the last year. Ukravtodor received the loan from the state Ukreximbank.

Another investment financing source that can be used by the largest state enterprises with the good audited financial statements is issue of eurobonds. In particular, these are such enterprises as Naftogaz (2019), Ukrainian Railways (2019, 2021), Ukravtodor (2021), Ukrenergo (2021).

According to the available data, in 2020, the capital investment into the fixed assets in terms of the individual SEs was made by 953 state

enterprises for the total amount of 39 billion Ukrainian hryvnias. For reference, according to the Ministry of Economy, the state enterprises reported on 53 billion Ukrainian hryvnias of the capital investment. The difference can be explained by the investment into the assets other than fixed ones, delay between recognition of the increase in the value of the fixed assets in comparison with the expenses incurred and writing off/depreciation of the fixed assets.

Division of the investment by the SDGs shows that, according to the experts, investment by the state enterprises was mostly made in the sector of manufacturing industry and infrastructure (Goal 9) and energy (Goal 7). These two goals are estimated to take up 89% of the total investment.

The considerable scope of investment was provided for Goal 8 (Decent work and economic growth). That is 6% of the total scope of the funds invested. The rest was Goals 15, 2, 12 and 3: investment into forestry, agriculture, waste treatment and health care.

Table 10: Investment by the state enterprises by the sustainable development goals, million UAH

	2017	2018	2019	2020
Goal 2. Zero hunger	695	1,036	413	336
Goal 3. Good health and well-being	542	302	48	59
Goal 7. Affordable and clean energy	9,230	12,230	12,143	11,667
Goal 8. Decent work and economic growth	5,137	4,805	4,575	2,222
Goal 9. Industry, innovation and infrastructure	33,742	36,727	33,605	21,812
Goal 11. Sustainable cities and communities	1,452	3,888	408	765
Goal 12. Responsible consumption and production	575	2,004	701	65
Goal 15. Life on land	875	1,267	575	542
Other goals	321	281	394	54
Total	52,568	62,539	52,862	37,522

Note: The division by the sustainable development goals is provisional: the indicators for some enterprises pertain to two or three goals.

Source: financial statements of the state enterprises, own calculations

The investment by the state enterprises are considered by the main goals in more detail below.

Goal 2 “Zero hunger”. The state still owns more than 200 mostly small enterprises in the agroindustry. These are enterprises of the Academy of Agrarian Sciences and selection enterprises, auxiliary agrarian enterprises at the correctional facilities and law enforcement authorities,

bread factories and distilleries, silk farms and one air company that specialises in crop irrigation. However, all of them have reported on small investment, and the value of fixed assets of some of them has gone down.

Goal 3 “Good health and well-being”. The state owns relatively few health care, pharmaceutical and sports enterprises. In 2020, most investment was made in Indar PrJSC and Artek ICC.



As for the rest, the indicator did not exceed one million Ukrainian hryvnias.

Goal 9 “Industry, innovation and infrastructure”.

This SDG includes 50% of the investment of the energy enterprises (except for Enerhoatom and Ukrhydroenergo) as well as 100% of the investment transport investment and 50-100% investment in a number of manufacturing and service industries. The investment of 459 enterprises is considered for this goal. In 2020, the largest contribution was made by the Ukrainian Railways (100%), Ukrenergo (50%) and USPA (100%). They took up 46% of the total investment. In general, the investment in this area are divided among quite a large number of state enterprises.

The considerable share of the investment of Ukrenergo and Ukrainian Railways was made at the expense of the funds borrowed from the IFIs. The same way as for the previous goal, the efficient cooperation with the IFIs is important for growth of the scope of investment.

Goal 7 “Affordable and clean energy”.

Goal 7 includes 100% of the investment by Enerhoatom and Ukrhydroenergo and 50% of the investment of the other state energy companies. In particular, they are Ukrenergo (distribution operator), Tsentrenergo, give regional energy companies that still are owned by the state and more than a dozen other enterprises, including the thermal power plant. The investment by Enerhoatom, Ukrhydroenergo and Ukrenergo took up more than 90% of the total investment into implementation of this goal in 2020. Just like in the Ukrainian railways and USPA, the considerable share of investment of three energy

companies was made with the IFI funds (up to 50%).

Goal 8 “Decent work and economic growth”.

The investment can be assigned to Goal 8 based on the residual principle since any investment potentially creates jobs and facilitates economic growth. In this regard, such enterprises as UMCC JSC can be mentioned (UMCC manufactures titanium and rare metals), Artem SJSHC, Artemsil.

Goal 11 “Sustainable cities and communities”.

This sustainable development goal includes investment by the state enterprises into construction, restaurants and hotels. In particular, this is investment by the state design institutes, housing and utility enterprises of the central governmental authorities and others.

Goal 12 “Responsible consumption and production”.

This goal includes the investment into the shelter facilities within the responsibility of the SME “Chornobyl NPP” and investment into a number of other facilities (SE “SSSPC “PROGRESS”, SSE “ASSOCIATION “RADON”, SSE “Central Radioactive Waste Treatment Enterprise”). The fluctuation of indicators year by year mostly represent changes in the scope of financing of the works at Chornobyl NPP. Such works are financed at the expense of the Fund established with participation of the foreign donors.

Goal 15 “Life on land”.

The investment of more than 200 state forestry enterprises and forestry and hunting enterprises is classified for this goal. Growth of the fixed assets of each of them does not exceed 25 million Ukrainian hryvnias, but this indicator is generally smaller for many of them.



Chapter 8.

PRIVATE INVESTMENT

8.1. National Investment Policy

Private companies' investment is another powerful source of funds that can help achieve the sustainable development goals in Ukraine. As they are aware of that, the authorities focus on improvement of the investment climate and raising of domestic and foreign investment.

The Law of Ukraine "On the Investment Activity" was among the first laws adopted after the independence of Ukraine was declared in 1991.¹²⁹ Although the law has been amended many times for the last years, its principal clauses have remained unchanged. The Law guarantees freedom of private investment provided that it is consistent with the law (technical and urban development standards, requirements for assessment of environmental impact) and protects investment from free nationalisation by the state. In case the state seizes the investment or takes actions to a similar effect, the investor shall be fully compensated for losses.

The deregulation reforms in 2015-2020 materially simplified the requirements for the standard investment projects. Progress in the construction industry was especially considerable. According to Doing Business, Ukraine's ranking in construction permits improved, from the second hundred in the rating in 2016 up to 20s among 190 countries in 2020.¹³⁰ However, progress in the Doing Business ranking has not fully influenced improvement of the investment climate. Progress in deregulation of specific activities

was not accompanied by such equivalent basic reforms as rule of law, anti-corruption and better competition in the economy. Despite the comparatively high rank (37th) by the indicator "Getting credit" in the DB ranking, in 2020, the scope of investment with the borrowed funds remained low, and the companies mentioned insufficient access to lending as one of the main obstacles to their development (also see Section 6).

This Law also provides for the state's direct interest in investment projects, but there are few projects except for the public-private partnership projects and energy efficiency projects.

The Law on Industrial Parks was adopted in 2013 and amended in October 2021.¹³¹ Those amendments expanded the list of the types of state support of the participants and organisers of industrial parks by providing subsidised grants, park equipment and related infrastructure grants, compensation for expenses for connection to the utility and transport systems. However, the actual support of industrial parks will depend on the funds allocated from the state and local budgets or IFI funds raised. Also, the Law on the State Support of Investment Projects with Considerable Investment in Ukraine was adopted in 2021.¹³²

No programme documents on investment development in Ukraine have been adopted for the last years, except for the Strategy for Facilitating

¹²⁹ Law of Ukraine 18.09.1991 No. 1560-XII <https://zakon.rada.gov.ua/go/1560-12>

¹³⁰ <https://www.doingbusiness.org/content/dam/doingBusiness/excel/db2020/Historical-data---COMPLETE-dataset-with-scores.xlsx>

¹³¹ Law of Ukraine dated 21.06.2012 No. 5018-VI <https://zakon.rada.gov.ua/go/5018-17>

¹³² Law of Ukraine dated 17.12.2020 No. 1116-IX <https://zakon.rada.gov.ua/go/1116-20>



Private Investment into the Agriculture until 2023 adopted by the Government in July 2019. The purpose of the Strategy is to achieve the sustainable development goals such as “zero hunger, national food safety, better food quality, development of agriculture, gradual, universal and sustainable economic growth, full and efficient employment in the agrarian sector”. The Strategy provides for improvement of the state support system for agriculture, enhancement of the capacity of the State Service on Food Safety and Consumer Protection, development of the land market, improvement of the transport infrastructure etc. Implementation of this Strategy is supported by the loan from the World Bank for the amount of 200 million US dollars.

In 2021, the draft Strategy to Increase the Direct Foreign Investment (DFI) was developed with the USAID support. In the opinion of the authors of the Strategy, direct foreign investment (DFI) is the only source of a possible considerable increase in investment into the fixed capital in the private sector, which in its turn is an essential basis for accelerated growth of the Ukrainian economy.¹³³ Some of the proposed actions of the Strategy are directed at better investment climate, which is to become a positive signal both for domestic and foreign investors. In particular, it is proposed to finish work over the basic package of reforms, such as completion of the judicial reform, elimination of corruption, reduction of oligarchs’ influence, better competition, independence of the NBU, responsible fiscal policy, performance of the Association Agreement, and development of the transport infrastructure. The Strategy was not approved as of November 2021. At the same time, the DFI level in Ukraine remains low and, according to UNCTAD, made 1,118 US dollars per person as of the end of 2020, whereas the respective average indicator in Europe exceeded 20,000 US dollars.¹³⁴

A number of establishments that are supposed to help investors in Ukraine have been founded and operate in Ukraine. For instance, there is SI “Investment Promotion Office” (UkraineInvest) at the CMU. In fact, it is an advisory authority for the Ukrainian and foreign companies regarding doing business in Ukraine, and it is responsible for communication between the investors and governmental agencies of all levels and supports resolution of the systemic issues that can be faced by the investors.¹³⁵ UkraineInvest has actually been determined to be an “investment nanny” in pursuance of the new state programme for large investment promotion.

There is a National Investment Council (financed by the EBRD) at the Presidential Office. It is a consulting and advisory authority at the President of Ukraine that acts as a platform for top-level communication and facilitates development of the dialogue between businesses, international investors and governmental authorities in Ukraine¹³⁶. That Council was the very place where the idea of introducing the institute of “investment nannies” for large investment was discussed. In the first place, these institutions work to raise foreign investment, but their achievements are also useful for domestic investors.

In May 2021, the Cabinet of Ministers registered the State Enterprise “National Investment Fund” with the authorised fund of 100 million Ukrainian hryvnias, and decided to reorganise it as Natinvestfund Joint Stock Company in September. According to its Articles of Association, Natinvestfund will raise investment funds from domestic and foreign sources, prepare investment projects and finance investment projects of priority. Of course, proper operation of Natinvestfund requires many more resources than initial 100 million Ukrainian hryvnias and high institutional capacity of the institution.

8.2. Capital Investment in Ukraine

The scope of capital investment in Ukraine remains low. In 2020, the gross fixed capital formation made 13% of the GDP, and Ukraine

is among ten outsiders by this indicator according to the World Bank.¹³⁷ In the previous years, Ukraine was among 30 countries with the

¹³³ <http://www.nicouncil.org.ua/uk/strategy.html>

¹³⁴ <https://unctadstat.unctad.org/wds/TableView/tableView.aspx>

¹³⁵ <https://ukraineinvest.gov.ua/uk/services-team/>

¹³⁶ <http://www.nicouncil.org.ua/uk/2020-04-14-07-47-40.html>

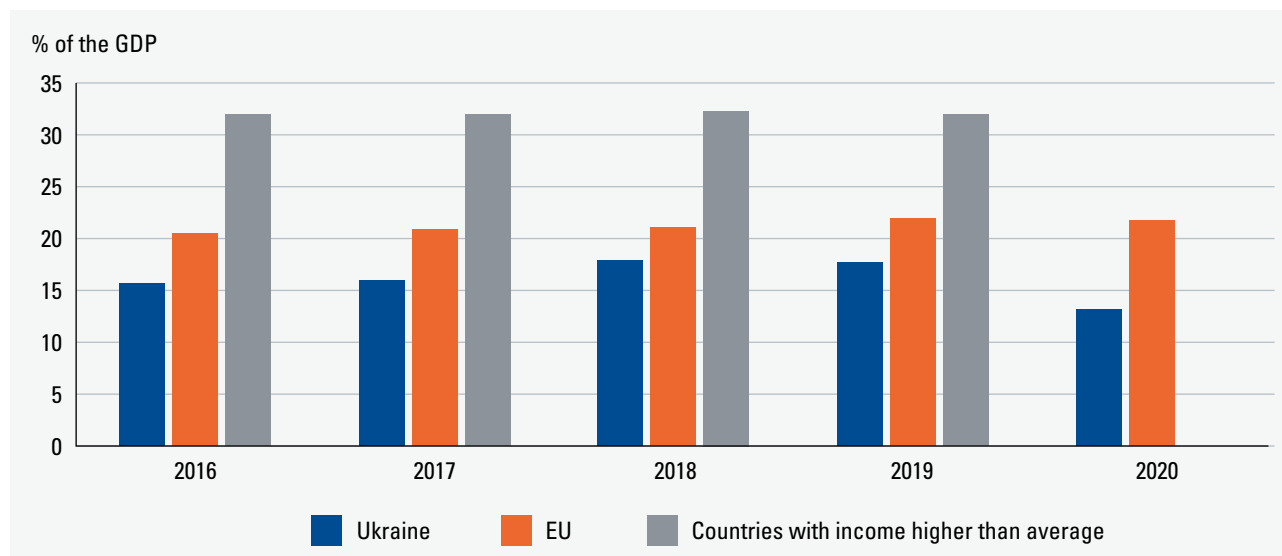
¹³⁷ <https://web.archive.org/web/20211122222512/https://api.worldbank.org/v2/en/indicator/NE.GDI.FTOT.ZS?downloadformat=excel>



lowest GFCF as a share of the GDP. The average indicator for the EU countries in 2016-2020 made 21% of the GDP against 16% for Ukraine (Figure 41). Ukraine obviously requires considerable investment to reduce the gap between the Ukrainian and European economy. For instance, the average indicator for the countries with the income higher than average according

to the World Bank's classification (this group includes 55 countries, including China, Brazil, Mexico, Kazakhstan etc.) exceeded 30% of the GDP. For the last few years, the state investment has been a driver of the investment process whereas private investment remains relatively low, and it was considerably reduced during the pandemic of Covid-19 in 2020.

Figure 41: Ukraine's GFCF in comparison with the other economies

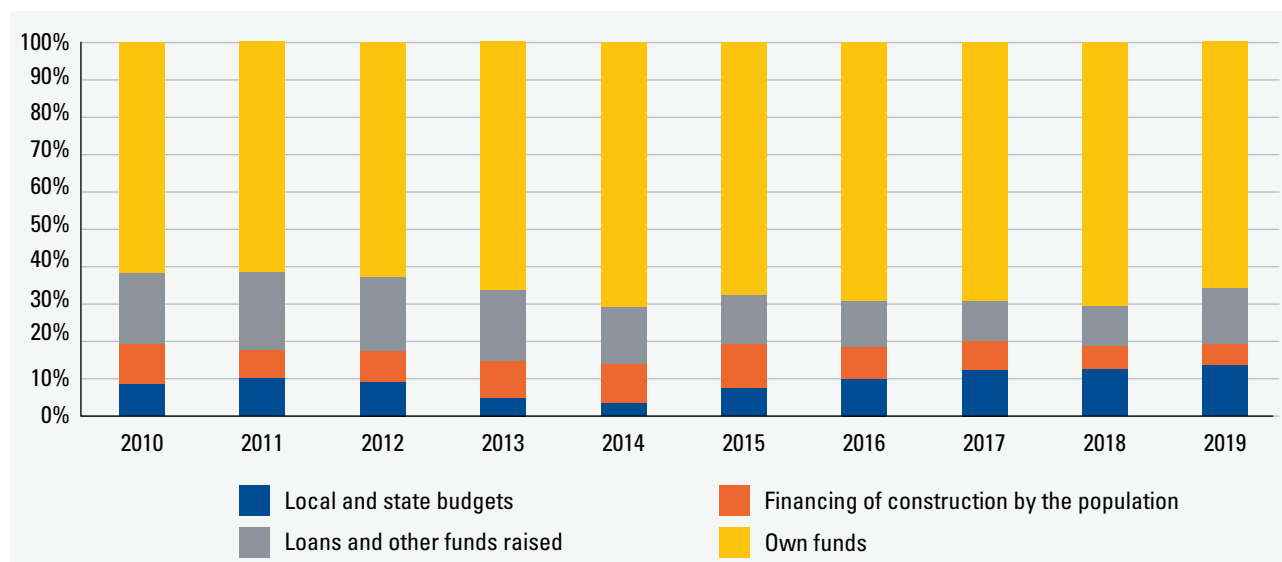


Source: World Bank

According to the Statistics Service, the main source of capital investment is own resources of enterprises (Figure 42). Bank lending remains limited for a number of reasons. In the first place, they are high risks and lack of quality borrowers. The problems with the rule

of law and long-term process of receipt and enforcement of court decisions also restrict bank lending. Moreover, banks have other investment opportunities: thus, in 2020 and 2021, the banks increased their investment into government securities greatly.

Figure 42: Capital investment by the sources of financing



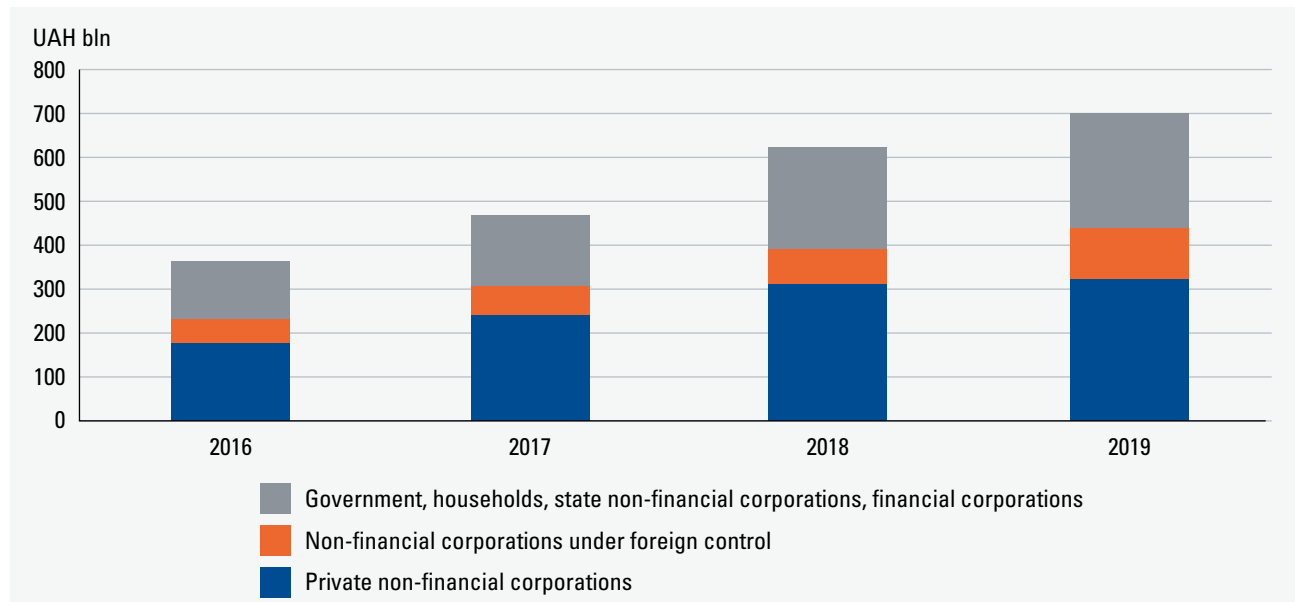
Source: Statistics Service

In 2019, the investment (fixed capital formation) of the private enterprises reached 438 billion Ukrainian hryvnias or more than 62% of the total scope of the gross fixed capital formation (Figure 43).

As it has been mentioned in Section 6 “Financial System”, most *private* investment has been financed with own funds of enterprises, which has made the enterprises be careful about development of their own investment plans. According to the Statistics Service’s survey on investment in the manufacturing industry in

2015-2021¹³⁸, availability of financial resources was the main factor in development of investment plans for the next year.¹³⁹ At the same time, bank lending still is quite limited. In the borrowers’ opinion, the problems were high value of lending and liquid collateral. According to the NBU’s survey on the business activity, small and medium-sized businesses mentioned high interest rates on the loans (54% and 55% of the respondents accordingly) and excessive requirements for the collateral (30% and 36% accordingly) as the reasons for refusal from bank lending.

Figure 43: Gross fixed capital formation by the institutional sectors



Source: Statistics Service

The investment climate, i.e. quality of the judicial system, level of corruption, stability and predictability of the state policy, also played the important role in formation of the investment demand. According to NBU’s survey regarding business expectations for quarter III of 2021, 41% and 32% of the surveyed construction enterprises mentioned the unstable political situation and corruption as the factors that hindered production growth.¹⁴⁰ The same way, among the senior executives surveyed by the European Business Association (EBA) during the first six months of 2021, the obstacles to growth of the scope of investment were the

weak judicial system (90%), the high level of corruption (80%) and the high level of the shadow economy (65%).¹⁴¹ As a result, the direct foreign investment (DFI) into Ukraine remains low, and it is considerably lower than the scope of money transfers from abroad: the DFI per capita makes approximately 1.7 billion US dollars in Ukraine in comparison with 13.7 billion US dollars in the Czech Republic, 10.5 billion US dollars in Slovakia, 5.9 billion US dollars in Lithuania, 6.1 billion US dollars in Poland, and 4.2 billion US dollars in Romania.¹⁴² The DFI mostly comes to the country from the USA and Germany.

¹³⁸ http://www.ukrstat.gov.ua/operativ/operativ2021/fin/opd_ek/io/pr/io_pr_15_22_ue.xlsx

¹³⁹ All the years for which data are available. The other categories on which questions were asked: demand, technical factors (deteriorated, obsolete fixed assets), other factors

¹⁴⁰ https://bank.gov.ua/admin_uploads/article/BOS_2021-Q3.pdf?v=4

¹⁴¹ https://eba.com.ua/wp-content/uploads/2021/07/EBA-InvestIndex_1H-2021_UKR.pdf

¹⁴² <http://www.nicouncil.org.ua/uk/strategy.html>



One of the potential drivers to raise the DFI can be privatisation of the state enterprises (Ukraine still has many of them in comparison with the countries in Eastern and Central Europe). However, privatisation plans fail year by year for different reasons.¹⁴³ Development of public-private partnership (PPP), which is still being established in Ukraine, has the large potential. In the first place, these are the

opportunities that exist in infrastructure and transport.

Therefore, the overall Ukrainian investment climate remains unfavourable for growth of investment up to the level necessary to accelerate the investment growth. In its turn, it adds complexity to financing of implementation of the sustainable development goals.

Insert: Methodology for Assessing Private Investment by the Sustainable Development Goals

The methodology different from the one used to analyse the investment into state enterprises has been used to analyse private investment although applicable data are available for 2020. It is connected with the fact that, according to the Statistics Service, the initial value of the tangible assets of the enterprises in 2020 grew by 1,079 billion Ukrainian hryvnias, and the growth by 653 billion Ukrainian hryvnias was caused by the revaluation. In other words, 60% of the "investment" is the effect of asset revaluation. We have eliminated the revaluation effect for the largest state enterprises, but the number of private enterprises that would require individual analysis would probably be considerably bigger.

However, the proxy for private investment was assessed based on the scope of capital investment by the types of economic activity according to the data of the Statistics Service less the investment financed from the state or local budgets. When data were confidential, we determined the indicators on an individual basis (or as the total investment by the non-confidential financing sources, or based on the residual principle if there were data with the higher aggregation level, or as the general scope of investment by all the financing sources). Data on the investment by the financing sources and types of economic activity for 2020 are only available based on the quarterly reporting as of the date of the report. At the same time, the general scope of investment by the types of economic activity based on the annual forms has already been published. Some of the enterprises only submit annual reporting forms whereas the other submit quarterly and amended annual data. Therefore, for the purposes of assessment, the scope of private investment by the types of economic activity was determined as the investment based on the quarterly data from the sources other than the state and local budgets, plus the difference between the amended and quarterly capital investment indicators. The scope of private investment for KVED 84 "Public administration and defence" was taken as zero.

At the next step, we deducted the above investment of the state enterprises from the indicators obtained and then used the same conformity between the types of economic activity and sustainable development goals as in case of state enterprises in order to divided private investment by types.¹⁴⁴ The next table contains both our assessment of private investment and aggregate scope of the capital investment divided by the SDGs based on the division of the capital investment based on the types of economic activity.

8.3. Private Investment by the Sustainable Development Goals

According to the experts, directions of private investment are materially different from the ones in which investment from other sources goes. As Table 11 shows, the public sector has mostly invested into Goal 16 (justice and institutions) and Goal 10 (reduced inequalities). It is explained by the fact that the capital investment into KVED 84 "Public administration and defence" is divided between Goal 16 (70%) and Goal 10 (30%). As it has been stated above, capital investment into this section of KVED has been excluded from the private investment assessment. Also, the considerable role of the state in the investment into Goal 7 (energy) should be noted: the major role

there is played by the state energy companies (Enerhoatom, Ukrenergo, Ukrhydroenergo). It is also associated with investment into implementation of Goals 3, 4 and 6 (education, health care and waste treatment). As for the other Goals (2, 8, 9, 11), the main investment was made by the private sector.

Most investment pertains to Goal 8, which includes all the investment that has not been referred to the other SDGs. In the first place, that is investment into the mining industry and trade since they create jobs and facilitate economic growth. The investment into these

¹⁴³ Today's list of major privatisation objects includes more than 20 companies, and the aggregate number of the companies that can be privatised is around a thousand.

¹⁴⁴ Although the indicator for the state enterprises has been calculated based on another methodology, we believe that the result represents division of private investment by the SDGs better. D



industries takes up almost 70% of the private investment that pertains to Goal 8 in 2020. As it has been stated above, most investment projects have a positive impact upon economic

growth and creation of jobs. In particular, investment into trade generally creates a considerable number of jobs (in fact, not very well-paid ones).

Table 11: Capital investment by the sustainable development goals, million UAH

	2016	2017	2018		2019		2020		
	Gen.	Priv.	Gen.	Priv.	Gen.	Priv.	Gen.	Priv.	Gen.
Goal 2, Zero hunger	69.6	80.2	81.0	92.5	93.3	88.9	89.7	75.5	78.1
Goal 3, Good health and well-being	5.5	6.7	8.1	5.0	10.6	5.1	12.1	12.7	17.2
Goal 4, Quality education	2.7	2.3	3.7	1.2	4.8	0.9	5.1	1.8	4.0
Goal 6, Clean water and sanitation	1.6	1.8	2.0	1.2	2.2	1.5	2.8	2.2	2.8
Goal 7, Affordable and clean energy	15.4	8.7	15.5	19.5	20.9	29.1	37.8	13.2	21.1
Goal 8, Decent work and economic growth	81.3	102.2	106.2	149.8	154.2	157.1	163.6	130.4	133.5
Goal 9. Industry, innovation and infrastructure	90.7	93.0	113.2	137.2	145.0	131.4	158.2	88.5	116.2
Goal 10. Reduced inequalities	6.8	0.1	9.9	0.0	13.4	0.0	16.4	0.0	18.7
Goal 11. Sustainable cities and communities	52.8	59.1	62.1	62.6	69.2	63.7	73.2	40.5	50.7
Goal 16. Peace, justice and strong institutions	16.1	0.8	23.9	0.6	31.9	0.5	38.6	0.5	44.1
Other goals	1.5	0.9	1.7	0.6	2.1	0.1	2.0	0.5	1.4

Note: Priv. – assessment of private capital investment in respective years, Gen. – general amount of capital investment including investment from the state and local budgets and state enterprises.

Source: Expert opinion based on the data of the Statistics Service

It is followed by the investment into achievement of Goal 9 (manufacturing industry and infrastructure), which includes most sectors of the processing industry, electric power, transport and certain types of professional activities. Although the package of industries classified as this goal is quite eclectic, the major contribution into achievement of Goal 9 is made into telecommunication, transport, 50% of the investment into energy and construction, and 50% of investment into the metallurgic industry. The same way, in 2020, those industries took up more than 70% of the total scope of investment by Goal 9. The investment into machine building was also material.

The investment into achievement of Goal 2, which was directed at the agroindustry, i.e.

agriculture and food industry, was also considerable. The scope of investment into agriculture was almost twice as big as the investment into the food industry. Financing of Goal 11, which includes investment into urban development (in the first place, investment into real estate transactions, hotels and restaurants and 50% of investment into construction), was estimated to be high.

In 2020, the scope of private investment was materially reduced in response to the coronavirus crisis, even without account of the inflation effect. In real terms, the capital investment into agriculture and manufacturing industry fell almost twice. Also, the private sector investment into health care, which is consistent with SDG 3, grew rapidly in response to the coronavirus crisis.

8.4. Financing of the SDGs by Private Enterprises beyond the Investment Projects

A considerable number of the large Ukrainian enterprises have declared the obligation to make their contribution into achievement of the sustainable development goals in their

strategic documents. According to the analysis by CSR Ukraine, which included assessment of 97 reports for 2015-2019 submitted by 47 enterprises (out of 100 major tax payers



and companies that had published applicable reports for the UN Global Compact), 70 reports mentioned Goal 8, 62 reports – Goal 4, and 59 reports – Goal 3.¹⁴⁵ In other words, support of economic growth, education and health care was mentioned most often. According to the research, in pursuance of these goals, the enterprises developed their corporate culture, held awareness raising events for their staff and third parties, allocated funds to health care facilities, promoted the healthy life style and sports.

The same way, 75 sustainable development experts from the EBA member companies were surveyed within the EBA research in September and October 2021 to calculate the sustainable development index.¹⁴⁶ 96% of the surveyed informed that their company considered the SDGs in its operations. 87% of the enterprises stipulated that in the corporate strategic documents. The most common projects directed at the SDGs among the surveyed included waste sorting and recycling, participation in

the educational programmes, tree planting and energy efficiency programmes. According to the EBA survey, the priority goals for the EBA were Goals 12 (responsible consumption), 4 (education), 15 (life on land), 7 (energy), 10 (reduced inequalities) and 9 (manufacturing industry and innovation).

However, the scope of financing of such projects is relatively low: only 21% of the companies invested 10 to 100 million Ukrainian hryvnias, and the others did less. The biggest expenses among the surveyed were incurred by small enterprises in the fuel and energy industry and IT companies. The aggregate budget of the SDG projects of the companies surveyed did not exceed 1.9 billion Ukrainian hryvnias (theoretical maximum), but it was most probably much lower.

In general, although most large enterprises have declared support of the SDGs, the enterprises' expenses for implementation thereof beyond the investment plans are very limited.

¹⁴⁵ <https://csr-ukraine.org/wp-content/uploads/2020/12/Vpliv-biznesu-na-CSR.pdf>

¹⁴⁶ <https://eba.com.ua/wp-content/uploads/2021/11/sust-index ukr.pdf>



Chapter 9.

TOOLS TO FACILITATE PRIVATE SECTOR INVESTMENT

9.1. Public-Private Partnership

Public-private partnership (PPP), which is directed at improving performance of operation of certain enterprises, financing the upgrade and enhancing the infrastructure, is gaining more and more significance for development finance. Therefore, public-private partnership must facilitate better quality and accessibility of services and infrastructural development in water supply and waste water disposal, waste treatment, transport and construction, road repairs, energy efficiency and supply etc., which will result in achievement of the sustainable development goals. It is confirmed by the experience of the other countries. Moreover, in 2019, the United Nations Economic Commission for Europe (UNECE) adopted the concept “People-first Public-Private Partnerships for the SDGs” and PPP guiding principles for sustainable development.¹⁴⁷

So no wonder that, against the background of lack of budget funds for improvement of the infrastructure, the need to develop the PPP as a tool to draw private investors into the respective industries has been discussed in Ukraine for many years. There have been major changes in the PPP for the last several years. Thus, the new PPP law has been adopted, and two ports have been conceded. PPP is also going to be used in road construction although Ukraine still has no

paid roads. PPP is also discussed as an option to develop airports and upgrade the railway.

The laws on PPP in general and concession in particular have not been materially revised for the last few years. The new laws were adopted due to the fact that the rules that existed then actually prevented implementation of the PPP and concession projects. The new Law on Concession was adopted in October 2019.¹⁴⁸ That Law, without limitation, also made material amendments to the Law on PPP by filling in the legislative gaps that actually prevented the concession projects.¹⁴⁹

The Law on Concession provides for concession of the facility, but does not precondition transfer of the title to the concession holder so after the contract expires, the facility is returned into state or municipal ownership together with the property created by the concession holder under the contract. In general, concession is one of the forms of PPP: the investor obtains the facility for management, invests into development of the facility and gains profit from the invested funds. It is a potentially important tool to raise private investment into Ukraine. Moreover, according to the amended law, the concession and PPP initiators may be not only state and municipal authorities, but also private

¹⁴⁷ <https://unece.org/ppp/standards>

¹⁴⁸ <https://zakon.rada.gov.ua/go/155-20>

¹⁴⁹ <https://zakon.rada.gov.ua/go/2404-17>



legal entities.¹⁵⁰ The private investors' interest in the concession projects will also be maintained by the legal rule on compensation for investment and losses if the contract has been terminated due to actions of the governmental authorities. In general, there are two common basic concession models in the world: user pay when the concession holder is paid by users of the specific facility, and government pay when the state effects a respective payment.¹⁵¹

Owing to the legislative amendments, in summer 2020, the state conceded two sea ports: Olvia (for 35 years with the investor's obligation to invest 3.4 billion Ukrainian hryvnias) and Kherson (for 30 years with the investor's obligation to invest 300 million Ukrainian hryvnias). The government is going to concede a number of motor road sites, several railway stations and airports.¹⁵² Development and accompaniment of the applicable projects are within the scope of responsibility of the PPP Agency, which was founded in 2019.

In general, according to the national classification, the number of the PPP projects is an indicator of performance of task 17.3 "To develop partner relations between the authorities and businesses to achieve the sustainable development goals" under SDG 17 "Partnerships for the goals". The benchmark for this indicator for 2020 was 205, which was somewhat higher than the actual indicator, 192 PPP projects.

However, only 39 contracts (29 concession contracts, six joint activity contracts and four other contracts) are being performed out of all the contracts made whereas 118 are not being performed, 35 have been terminated or have expired.¹⁵³ For instance, although Poltava Region has 110 PPP projects according to the Statistics Service, only one project is actually being implemented there. Therefore, use of the total quantity of the PPP projects as an indicator of performance of task 17.3 without consideration of their actual status and efficiency looks insufficient and unreasonable.

Table 12: Quantity of PPP projects in Ukraine

	2015	2016	2017	2018	2019	2020
Ukraine	177	186	191	189	187	192
Vinnitsia	-	-	-	-	-	-
Volyn	-	-	-	-	-	-
Dnipropetrovsk	-	-	1	1	1	1
Donetsk	7	7	5	6	6	8
Zhytomyr	1	1	1	1	1	1
Zakarpattia	4	4	9	4	4	4
Zaporizhzhia	7	7	7	7	7	11
Ivano-Frankivsk	1	2	2	2	2	1
Kyiv	1	11	13	19	15	13
Kirovohrad	1	-	1	2	2	2
Luhansk	1	1	1	1	1	5
Lviv	4	4	4	4	5	8
Mykolaiv	15	15	15	15	15	18
Odesa	14	14	9	8	9	1
Poltava	113	113	114	110	110	110
Rivne	-	-	-	-	-	-
Sumy	-	-	-	-	-	-
Ternopil	2	2	2	2	2	-

¹⁵⁰ Private legal entities have been able to participate in the bidding procedures at electronic platforms since 1 January 2022.

¹⁵¹ PPP Contract Types and Terminology <https://pppknowledgelab.org/guide/sections/6-ppp-contract-types-and-terminology>

¹⁵² <https://pppagency.me.gov.ua/uk/projects/>

¹⁵³ According to the Ministry of Economy: <https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=9fc90c5e-2f7b-44b2-8bf1-1ffb7ee1be26&title=StanZdiisnenniaDppVUkraini>



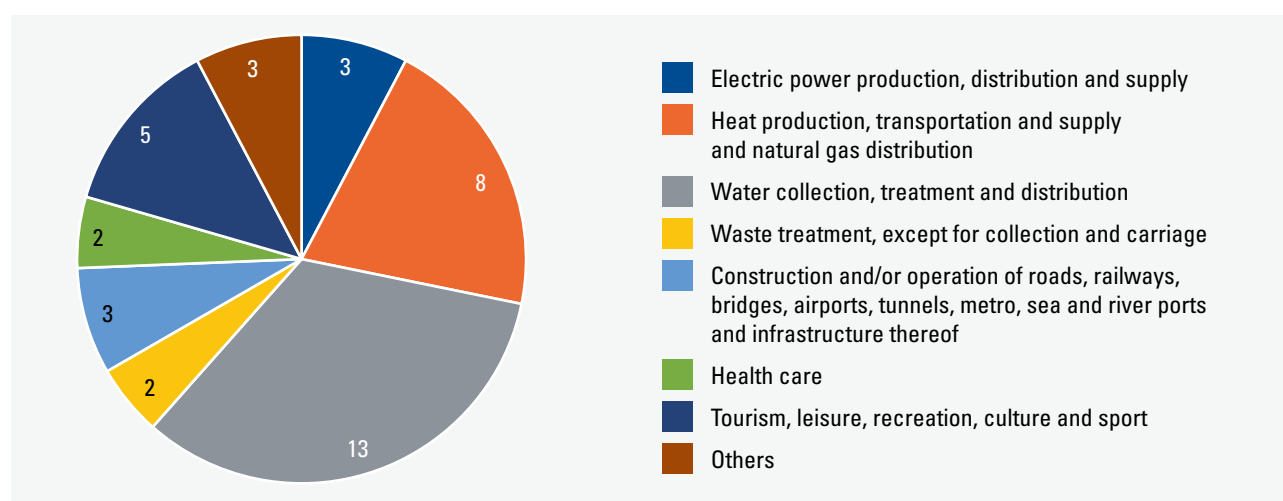
	2015	2016	2017	2018	2019	2020
Kharkiv	1	1	1	1	1	1
Kherson	2	2	2	2	2	2
Khmelnyskyi	2	1	3	3	3	4
Cherkasy	-	-	-	-	-	-
Chernivtsi	-	-	-	-	-	1
Chernihiv	1	1	1	1	1	1
City of Kyiv	-	-	-	-	-	-

Source: Statistics Service according to the Ministry of Economy¹⁵⁴

According to the Ministry of Economy, most PPP contracts pertain to the sector “Water collection, treatment and distribution,” and six out of thirteen contracts have been made in Mykolaiv Region.¹⁵⁵ In the first place, these projects can be assigned to SDG 6 “Clean water and sanitation.” Eight projects in the sector

“Heat production, transportation and supply and natural gas distribution” and three projects in the sector “Electric power production, distribution and supply” will mostly help achieve SDG 7 “Affordable and clean energy.” The other projects will mostly facilitate achievement of SDGs 3, 9, 11 and 12 (Figure 44).

Figure 44: Quantity of the PPP contracts in progress, by the types of activity (as of 1 January 2021)



Source: Ministry of Economy

One of the obstacles to PPP development in such sectors as water supply and waste water disposal (SDG 6), heat and electric power supply (SDG 7), waste treatment (SDG 12) and infrastructure development, namely the railway (SDG 9) is a non-transparent and unpredictable governmental policy for setting administrative prices of the services. Thus, when the PPP project is implemented, the private investor must be sure that profit can be gained after investment is made, but the financial result actually depends, without limitation, on the readiness of the government to increase tariffs, in particular, the ones for the housing and utility services

and passenger carriage by rail for the public up to the level that will cover the net cost and investment components. In general, lack of trust between businesses and the government still is one of the important hindrances that prevents development of PPP. Private businesses also need completion of the judicial reform to be sure that their rights can be defended.

In consideration of the obligation of Ukraine to perform the agenda of the SDGs 2030, the Procedure for Analysing Performance of the PPP has included the requirement for considering the SDGs at each stage of preparation

¹⁵⁴ http://ukrstat.gov.ua/csr/prezent/ukr/st_rozov/metadata/17/17.htm

¹⁵⁵ According to the Ministry of Economy: <https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=9fc90c5e-2f7b-44b2-8bf1-1ffb7ee1be26&title=StanZdiisnenniaDppVUkraini>



and implementation of the PPP project since 2020; in particular, conformity of the purpose of the concept, feasibility study and project to the sustainable development goals must be considered.¹⁵⁶

However, the detailed analysis of the PPP projects in Ukraine by the UNECE experts has demonstrated a number of gaps in PPP regulation in general and facilitation of achievement

of the SDGs in particular.¹⁵⁷ The SDGs are not mentioned in the PPP and concession principles set by the applicable laws. It also mentions “lack of the mandatory full-scale assessment of the social impact, impact upon sustainable development, environmental and disaster resilience” and “lack of mandatory obligations of the environmental nature in the PPP and concession contracts with account of disaster resilience”.

9.2. Industrial Parks

The international experience demonstrates that one of the important tools to raise private investment is establishment of industrial parks. However, the interest in such tools differs subject to the country. Thus, industrial parks can create necessary infrastructure, which can include connection to electric power grids, water supply and waste water disposal, logistic opportunities (such as access to motor roads and/or railway) etc. Moreover, investment park participants (residents) are sometimes offered tax benefits.

In Ukraine, the Law on Industrial Parks was adopted in 2012, but it was materially amended in 2021 in order to expand the possibility of raising investment into the industrial sector of the economy^{158,159}. The industrial park (IP) is defined as the *“area that is determined by the initiator of the industrial park pursuant the urban development documentation and equipped with the necessary infrastructure, where the participants of the industrial park can conduct their business activity in the processing industry, treatment of industrial and/or domestic waste (except for waste burial) as well as scientific and technical activity, information and telecommunication activity under the terms and conditions set by this Law and contract for the economic activity within the industrial park.”* Therefore, creation of the industrial park is aimed at achieving SDG 8

“Decent work and economic growth” in the first place.

The initiator of the IP may be the governmental or local authority, legal entities or individuals. Moreover, the IP initiator may not be a participant of the park, and the management company may not conduct the business activity equivalent to the one of the IP participants. The IP initiators have to inform the Ministry of Economy of establishment of the industrial park. However, in fact, some of the IPs have not been registered with the Ministry of Economy, and the IP registration procedure still has not been developed following the amendments to the law.

As of the beginning of November 2021, the IP Register contained information on 53 industrial parks, one of which has been dissolved.¹⁶⁰ At the same time, most industrial park conduct no actual activity, and around ten registered parks only have registered participants. Only four industrial parks have the quality infrastructure that has enabled them to engage the participants with the operating plants:

- Bila Tserkva Industrial Park (Kyiv Region);
- Vinnytsia Industrial Park;
- Solomonovo Industrial Park (Zakarpattia Region);
- Korosten Industrial Park (Zhytomyr Region).¹⁶¹

¹⁵⁶ <https://zakon.rada.gov.ua/laws/show/294-2020-%D0%BF#Text>

¹⁵⁷ Overview of the PPP Laws of Ukraine as to the UNECE Model “People-first Public-Private Partnerships for the Sustainable Development Goals”, 2021.

¹⁵⁸ <https://zakon.rada.gov.ua/laws/show/5018-17#Text>

¹⁵⁹ <https://zakon.rada.gov.ua/laws/show/1710-20#n5>

¹⁶⁰ Information on the industrial parks included into the Industrial Park Register, <https://www.me.gov.ua/Documents/List?lang=uk-UA&id=6463d3ba-aa13-4e54-8db9-0f36642c43d9&tag=IndustrialniParkiVUkraini>

¹⁶¹ <https://www.ukrinform.ua/rubric-economy/3325847-industrialni-parki-v-ukraini-zamah-na-grivnu-a-udar-na-kopijku.html>



Some of the IPs are still being prepared. In particular, the process includes connection to the utility systems and equipment of the area.¹⁶² Seven parks are being constructed. Funds of the state and local budgets are mostly going to be spent for the IP equipment, but funds of the management company and participants of the IP are also going to be used. At the same time, there is little public financing, and it is unstable. For instance, only four projects associated with establishment of the IPs were financed with the SFRD funds in 2016-2019.¹⁶³ For the issue to be resolved, the updated version of the law on the IPs prescribes that the funds from the state budget can be directed at financing of the construction, reconstruction, repairs of the utility and transport infrastructure in order to create, operate and equip industrial parks. The local budgets lack their own funds for full-scale launch of the IPs.

Another obstacle that slows down efficient operations of the IP is the weak institutional capacity of the local authorities as to development of the infrastructure of the park, selection of the management company and conclusion of the agreement with the latter. Moreover, some of the local authorities select a municipal enterprise as a management company, which also has the low institutional capacity and lacks qualified staff.

Although the above-mentioned causes result in the small number of the successful industrial parks, tax benefits for the IP participants are going to be introduced. They include CIT exemption for ten years and VAT exemption for new equipment imported for own use. However, potential introduction of such benefits reminds of the situation with the free economic zones, which were eliminated in 2005 due to their poor performance and high level of abuse.¹⁶⁴

9.3. Business Development Fund

At the beginning of 2020, the Ministry of Finance of Ukraine reorganised the German-Ukrainian Fund (established in 1999) into the Business Development Fund (BDF) established to grant financial support to small and medium-sized enterprises (SMEs). Before 2020, the funds via the German-Ukrainian Funds were granted within the programmes financed by the IFIs, including KfW. In February 2020, the SME support programme "Affordable Loans 5-7-9%" financed from the State Budget was launched.

The initial idea of 5-7-9% programme was to facilitate bank lending to the SME investment projects by compensating for a part of the interest rate on the loans. Moreover, an additional compensation could be received if new jobs were created. Another focus of the programme was aid to the newly-established companies and startups. The programme is implemented via the partnering commercial banks that have entered into respective agreements with the BDF.

However, the SME financial support mechanisms were revised due to the coronacrisis, as a result of which the BDF started to partly or

fully compensate for the interest rate on the loans not only for the investment needs, but also replenishment of circulating funds (so called anti-crisis loans). The programme also provided for refinancing of the available loans at the zero rate. As the bank loan risks for the SMEs are high, and the companies sometimes do not have sufficient collateral, the government has also introduced the state portfolio guarantee for the respective loans. Therefore, the programme by its design is mostly directed at SDG 8, i.e. it must facilitate creation of jobs and economic growth.

As of the beginning of November 2021, the amount of the loan agreements made 68.3 billion Ukrainian hryvnias, including only 8.3 billion Ukrainian hryvnias of investment loans and 37.9 billion Ukrainian hryvnias of anti-crisis ones. The current debt for the loans made 53 billion Ukrainian hryvnias. Among the loans granted, 44% are agriculture, 26% are trade, and 17% are the manufacturing industry.

Alongside with the available loan programme, the BDF also continued its cooperation with

¹⁶² Overview of Development of the Industrial Park Network by the Regions of Ukraine

¹⁶³ <https://www.ukrinform.ua/rubric-economy/3325847-industrialni-parki-v-ukraini-zamah-na-grivnu-a-udar-na-kopijku.html>

¹⁶⁴ <https://voxukraine.org/longreads/industrial-park/article-ua.html>



the international donors. Thus, the Fund is now implementing FinancEast Programme aimed at financial support of small enterprises in the east of Ukraine. The programme is implemented at the expense of KfW and the EU grant.

In March 2021, the BDF also started to implement the programme "Available Mortgage 7%", which is supposed to cheapen the mortgage loans down to 7% via the Fund's partial compensation for the interest rate. The programme is implemented at the expense of the State Budget.¹⁶⁵ Its purpose is to enable more households to buy their own accommodation and support residential construction. After the programme had been launched, as of the beginning of November 2021, 1,027 loan agreements for the total amount of 888 million Ukrainian hryvnias were made. Around 80% of the applications are in Kyiv and Kyiv Region (approximately equally), which does

not facilitate reduction of the regional inequality. In general, this area of the BDF's operations is consistent with SDG 11, which is to improve affordability of accommodation.

In November 2021, it was also resolved to introduce the new type of SME state support within the area of responsibility of the BDF. That is a state programme for financial leasing.¹⁶⁶ Support will be granted via partial compensation for actual expenses for payment of the basic remuneration under financial leasing agreements to the level of 5, 7 or 9% per annum. The Ministry of Finance expects that the new programme will be of use for micro-entrepreneurs in the first place because they have a great difficulty obtaining bank financing. It must result in an increase in the share of the investment component in the BDF programmes, which will facilitate growth of capital investment and, therefore, creation of jobs.

9.4. Startup Fund

The Ukrainian Startup Fund (the official name is Innovation Development Fund) started to work in 2019; the decision on its establishment had been taken by the government the year before.¹⁶⁷ The purpose of the Fund is to encourage creation and growth of technological startups in Ukraine at the early development stage in order to improve their global competitive ability.¹⁶⁸ The Fund's programmes are financed from the State Budget.

The Fund grants non-repayable financial aid to the startups at the initial development stages: pre-seed projects can receive a grant for the amount of 25,000 US dollars (in UAH equivalent); seed startups can get a grant of 50,000 US dollars. Therefore, one start up can receive the total amount of 75,000 US dollars. A startup can also obtain 10,000 US dollars for the acceleration programme in the international and Ukrainian accelerators.

The target sectors of the grant support include the following: agritechnologies, artificial

intelligence (AI), augmented reality (AR/VR), big data (BigData), blockchain, educational technologies (EdTech), life style (Lifestyle), energy and ecology, financial technologies (Fintech/legaltech), e-governance, health care, media and advertising, retail trade, manufacturing industry, and security.

By November 2021, the Fund had supported around 240 startups for the amount of more than 166 million Ukrainian hryvnias. Moreover, independent professional experts transparently select startups for pitching (more than 400 startups have submitted full applications whereas the Fund has received 3,700 applications). Most winning startups pertain to the category of artificial intelligence and life style (13.6% per each), big data (10.6%), EdTech (9.2%) and health care (8.4%). In particular, these categories can be compared with Sustainable Development Goals 9, 4 and 3 and some others. AgriTech area, which is, without limitation, consistent with SDG 2, had 4.0% of the selected applications.

¹⁶⁵ <https://bdf.gov.ua/uk/programa-dostupna-ipoteka-7>

¹⁶⁶ https://mof.gov.ua/uk/news/finansovii_lizing_u_ramkakh_5-7-9_novi_mozhlivosti_dlia_mmosp-3187

¹⁶⁷ Decree of the CMU "On Establishment of the Innovation Development Fund", No. 895-p dated 7 November 2018

¹⁶⁸ <https://usf.com.ua/>



9.5. Major Investment Project Support: “Investment Nannies”

At the end of 2020, the parliament resolved to introduce state support of the investment projects with considerable investment.¹⁶⁹ The programme was initiated by the President of Ukraine at the beginning of 2020 and called “Investment Nannies” since it provides not only for financial support of projects, but also advisory assistance at all the stages of projects preparation and implementation. The laws granting tax and customs benefits to the respective projects were adopted in March 2021.

According to the programme, state support is granted after the special investment contract is made for up to fifteen years. Moreover, several investors can participate in the respective project, and the scope of state support is limited to 30% of the scope of investment. UkraineInvest is responsible for organisational and advisory support; upon the investor’s request, it consults in preparation of the package of documents for the Ministry of Economy, which assesses the project and decides to grant or deny state support of the project. UkraineInvest can also accompany the investor after the Ministry of Economy takes a positive decision on the state support.

The following forms of state support are provided for:

- CIT exemption for five years running;
- Customs duty and VAT exemption for import of the new equipment and devices necessary to implement the project¹⁷⁰

- Construction of the related infrastructural facilities.
- Provision of the state-owned or municipal land plot under beneficial conditions. In particular, the local authorities can grant land tax and lease charge benefits.

These benefits will be in effect until 2035 and provided within the time frames for the projects.

State support can be granted to the investment projects with the period of implementation of up to five years, which provide for the scope of investment of at least 20 million euros (in UAH equivalent) and creation of at least 80 jobs. The projects have to provide for construction, upgrade, technical and/or technological re-equipment of the investment facilities, purchase of respective equipment. Moreover, quite a wide range of the areas where investment projects can be implemented has been established.

According to UkraineInvest, there are already around 30 applications from the interested Ukrainian and foreign investors. Several projects are at the final stage of submission of the package of documents to the Ministry of Economy. In general, the idea is that the main purpose of the investment projects is to create jobs and facilitate economic growth, which is mostly consistent with SDG 8.

¹⁶⁹ Law of Ukraine No. 1116-IX dated 17 December 2020, <https://zakon.rada.gov.ua/laws/show/1116-20#Text>

¹⁷⁰ However, such equipment and devices with the specific codes of the Ukrainian Classifier of Types of the Foreign Economic Activity has to be manufactured not more than three years before the import and be used for at least five years of the project.



Chapter 10.

CONCLUSIONS AND RECOMMENDATIONS

10.1. General Conclusions and Recommendations

In order to enhance the capacity of the authorities to achieve the sustainable development goals until 2030, the UNDP has suggested creating the mechanism for coordinating the efforts and policies: the Integrated National Financing Framework (INFF). The system de facto is the conceptual framework that can be used by the government to improve integration between the long-term intentions to facilitate sustainable development and the policy that would encourage maximum mobilisation of financing for the specific goals. Several tools have been developed for efficient operations of the INFF: rapid integrated assessment (RIA), development finance assessment (DFA) and comparison of the sustainable development goals with the budget expenditures under the budget programmes (budget tagging). The report presents the Development Finance Assessment (DFA) for Ukraine.

The main challenges during the Development Finance Assessment in terms of the SDGs include lack of necessary details of the data for efficient financing assessment in terms of the SDGs, in particular, lack of the applicable codification of budget expenditures or classification of investment. Therefore, the assessment is based on the estimates of the experts who have been drafting the report. Another challenge has been duplication of data in different development finance sources. Therefore, the available estimates

of financing of the sustainable development goals from different sources cannot be summed up. At the same time, it has been determined based on the expert assessment which goals are financed with specific sources, and the actions to mobilise necessary funds have been worded.

The important challenge during analysis and development of recommendations on more development finance opportunities is different views of the government, businesses and public on several development priorities. In practice, it means concurrent financing of different areas and, therefore, dispersal of limited development finance. That is why it is important to use the INFF actively, to develop the dialogue between all the stakeholders, to efficiently use the available development finance, and to reasonably create conditions to mobilise additional funds for development needs. In consideration of the investment shortage in all the areas during the previous years and limited financing opportunities, both an increase in the aggregate financing and selection of its priority spheres in terms of sources should be discussed.

The principal sources of financing the sustainable development goals have been determined based on the analysis (see Table 13). It is obvious that the respective SDGs 2030 cannot be achieved without necessary financing.

**Table 13: Main development finance sources by the SDGs**

Sustainable development goal	Main financing sources	Comment
Goal 1. No poverty	<ul style="list-style-type: none"> – State Budget – Local budgets – Financing by IFIs 	<p>The analysis has demonstrated that the social support programmes are mostly financed from the State Budget. For the last few years, financing of the specific social support programmes has been centralised, and the housing and utility subsidies have been monetised to ensure higher performance of budget funds and more equal public access to the social support programmes. At the same time, the funds allocated for the social programmes in the State Budget are insufficient for the actual subsistence minimum. Thus, it is important to specify the role of the subsistence minimum and its calculation methodology, to specify the poverty level calculation technique, and to regulate use thereof in the social aid at the legislative basis.</p> <p>The local budgets mostly finance local programmes to support those with a low income. Their financing is often limited.</p> <p>Elimination of poverty is also facilitated with a number of projects that are implemented, without limitation, with the financial support from the IBRD (for instance, E-social).</p> <p>In general, the principal source of financing of the social aid programmes still must be the State Budget. At the same time, the researches demonstrate that economic growth is the most efficient way to fight poverty. That is why the actions below must be taken to mobilise development finance from all the sources, which will facilitate economic growth.</p>
Goal 2. Zero hunger, development of agriculture	<ul style="list-style-type: none"> – Private Investment – State Budget 	<p>The priority source of financing of this area is private investment since the agrarian sector is mostly represented by private companies. The private sector is supported by the Business Development Fund as well as loans from the EBRD and EIB. The Partial Guarantee Fund is supposed to be started in 2022 in order to simplify the farmers' access to lending. The authorised capital of the Fund will be mostly established at the expense of the State Budget, and some funds are also expected from the IFIs.</p> <p>The state expenditures for Goal 2 include subsidies for agrarian manufacturers in the first place. However, their performance still is doubtful so it needs further increase.</p> <p>Ukraine is also implementing the land irrigation actions financed with the budget funds. The IFI support must be raised in this area since climate changes bear risks for crop farming development in the south of the country.</p> <p>Introduction of reasonable and efficient state regulation in agriculture and efficient administration of agricultural lands is facilitated by a number of the projects financed by the IFIs. In particular, that is the project "Accelerating Private Investment in Agriculture of Ukraine", which is implemented with the loan from the World Bank.</p> <p>This goal will obviously be achieved with the projects in irrigation, improvement of the environmental condition of the irrigated and dried lands. The main sources of financing for these projects could be, without limitation, private investment and concessional loans from the IFIs.</p>
Goal 3. Good health and well-being	<ul style="list-style-type: none"> – Local budgets – Financing by IFIs – MNE investment 	<p>As a result of the medical reform, the budget medical facilities have been reorganised into municipal non-profit enterprises (MNEs). The main source of payment for their services is financing within the medical guarantee programme implemented by the NHSU. At the same time, the principal purpose of the financing is to cover the net cost of aid rather than development of the facilities. However, the medical MNEs invest their income from paid services, which still are limited. Another source of financing is private (voluntary) insurance the role of which has not been clearly defined yet due to lack of the clear border between the medical aid paid by the NHSU and other types of aid. The government should also consider elimination of the value of staff medical insurance from the IIT assessment base.</p>



Sustainable development goal	Main financing sources	Comment
		<p>As of today, the main development finance source in this area is local budgets. According to the Budget Code, the local budgets are responsible for financing development of the medical MNEs they own. These are repairs and purchase of equipment and devices for the facilities as well as construction of new facilities. In order to raise private capital, medical facilities can enter into concessional agreements, but they remain an exception.</p> <p>Some projects of the IFIs, namely the IBRD, are associated with financing of health care development.</p> <p>The matters related to the tasks of Goal 3 are also handled by the private funds and some of the ITA projects.</p>
Goal 4. Quality education	<ul style="list-style-type: none"> – State Budget – Local budgets – Private Investment 	<p>The largest education financing source in Ukraine is the State Budget, which finances salaries of the pedagogical staff of the schools (educational subvention) as well as government order for the higher educational establishments.</p> <p>The local budgets finance the pre-school and vocational education as well as development expenditures in the school education. That is why optimisation of the network of secondary general educational establishments is of importance to increase performance of financing in this area and to improve access to quality education. In this regard, the Verkhovna Rada has to adopt the special law on the vocational establishments that would provide for development of module and dual education. It is also important to expand opportunities as to recognition of the unofficially obtained qualifications and certificates issued by private educational programmes and modules.</p> <p>Approaches to government order should be revised, and the network of higher educational establishments should be optimised for better quality of education in the higher educational establishments.</p> <p>More and more private educational establishments have been opened in Ukraine for the last few years. Financing of education (especially higher one) by private businesses and philanthropists is gaining popularity.¹⁷¹ Thus, private investment can turn into an important potential source of financing of Goal 4 in the future. In order to create favourable conditions for private financing development, the government should study the experience of other countries as to regulation of charity and philanthropy in terms of tax assessment of charitable contributions (donations), and amend the effective laws to encourage charity in general and simplify tax benefits under the TCU for the individuals who spend funds for private education.</p> <p>With a view to reducing the skills mismatch, the state must conduct an active dialogue with businesses, which will enable quality forecasting of development of the labour market in general and needs of the market for employees with the respective qualifications in the mid and long term.</p>
Goal 5. Gender equality	<ul style="list-style-type: none"> – ITA – State Budget 	<p>The national labour market policy focuses, without limitation, on gender aspects. Thus, the Labour Code bans labour discrimination, namely violation of the principle of equal rights and opportunities of employees regardless of their sex and gender identity. The respective clauses can also be found in the Law on the Public Employment.</p> <p>Unfortunately, there is no enough data to assess expenses to finance the tasks in pursuance of this goal, by different development finance sources. At the same time, gender budgeting is mandatory both at the state and local budget levels. Therefore, the obligation of the principal budget owners to publish information on financing of the tasks within this goal should be stipulated.</p> <p>Some of the ITA projects are aimed at gender equality. The performance indicators associated with the gender aspects are also included into a number of the projects financed by the IFIs/</p>

¹⁷¹ According to Forbes Ukraine, at the end of 2021, the philanthropists, businesses and private funds allocated around 54 million Ukrainian hryvnias to finance the educational establishments, <https://bit.ly/3IK41Dn>



Sustainable development goal	Main financing sources	Comment
Goal 6. Clean water and sanitation	<ul style="list-style-type: none"> – ME investment – Private investment (PPP) – IFI projects 	<p>In Ukraine, water supply and waste water disposal are the responsibility of municipal enterprises in the first place. At the same time, respective investment by municipal enterprises is insufficient since their holders cannot mobilise necessary funds. In particular, it is connected with the fact that the tariffs very often fail to include an investment component or even cover the net cost of the respective services whereas the enterprises get no subsidies from the budget.</p> <p>One of the possible tools to raise private investment into these areas can be PPP although this tool still has not been widely used for a number of reasons. In the first place, the matter is that the MEs and local authorities lack applicable knowledge and institutional capacity.¹⁷² Moreover, the economically unreasonable tariffs (especially when it comes to concession) make financing of respective projects economically unattractive for private investors.</p> <p>The State Budget has the special budget programme “Drinking Water”, which is fully consistent with the tasks of Goal 6 by its purpose and indicators. However, this programme has practically not been financed for all the years of its existence. The State Budget for 2022 provides for the financing thereof, which will help improve access to quality water under the condition of efficient and transparent implementation of the applicable actions.</p> <p>According to the experts, the social and economic development projects with the support of the concessional project lending by the IFIs are a possible tool to finance the investment that will facilitate achievement of the Goal. At the same time, the government and international partners, including the IFIs, should agree upon the grant component of the loans or upon grants within the international technical assistance to finance preparation of the project documentation, including the feasibility study.</p>
Goal 7. Affordable and clean energy	<ul style="list-style-type: none"> – Private Investment – Financing by IFIs – State Budget – State enterprises 	<p>The main source of financing of investment into development of alternative sources of energy is private investment (solar panels, wind power plants etc.). At the same time, the matter of paying the respective companies the green tariff for the power they generate must be resolved. For instance, in 2021, in order to repay the debt to those companies, Ukrenergo issued the first green eurobonds in Ukraine, which was a temporary rather than stable solution of the problem.</p> <p>The energy efficiency actions are mostly financed from the State Budget. However, this activity lacks sustainability and clarity of the policy. The government either suspends or resumes to allocate funds to finance the warm loans that have proven their efficiency. However, the Energy Efficiency Fund still has not started its operations, as it was expected when it was established.</p> <p>The state enterprises (Enerhoatom, Ukrenergo, Ukrhydroenergo) also invest into repairs and upgrade of their equipment and upgrade of electric power grids. Economically reasonable tariffs with the investment component are very important for expansion of such financing.</p> <p>One of the important sources of funds for budget financing and investment of the state enterprises into Goal 7 is concessional loans granted by the IFIs and the EU. Loans and grants in this area are also provided by NEFCO. However, given the limited internal sources, financing from the IFIs needs to be increased. These are loans not only to the government, but also local authorities (in UAH or with insurance of the forex risk) as well as the private sector.</p>

¹⁷² More information on investment of the MEs and PPP can be found in the reports on development finance assessment of Donetsk and Kherson Regions.



Sustainable development goal	Main financing sources	Comment
		Considerable amounts are directed by the government from the State Budget to support the state-owned coal mines. According to some studies, such support is inefficient. ¹⁷³ Moreover, it is of prejudice to achievement of the SDGs since such support decelerates development of the alternative sources of energy (SDG 7) and limits reduction of greenhouse gas emissions (SDG 13). ¹⁷⁴ The government should finally reform the coal sector. The governmental idea of these changes is described in the Concept of the State Target Programme for Fair Transformation of the Coal Regions of Ukraine until 2030, which was adopted in 2021. ¹⁷⁵
Goal 8. Decent work and economic growth	– Private investment	All the investment facilitates achievement of this Goal to a certain extent. However, according to the experts, the leading role is played by private investment in order to create new businesses and expand the existing ones. Therefore, the government and local authorities should introduce the investment climate improvement actions in a conscientious and persistent manner. In the first place, these are judicial and law enforcement reforms.
Goal 9. Industry, innovation and infrastructure	– Private investment – State Budget, including the SFRD and the Road Fund – Financing by IFIs	<p>According to the experts, the tasks of Goal 9 are financed from all the available sources of financing. At the same time, the investment areas have their peculiarities.</p> <p>In particular, that is a wide range of projects financed by the private companies. That is financing of innovation, investment into production upgrades, development and introduction of new technologies etc.</p> <p>One of the tools to raise private investment to develop innovation is industrial parks. However, its performance still is very low. The government has already amended the laws on industrial parks and is also going to introduce tax benefits. At the same time, the experience shows that the reliable and relatively simple access to the infrastructure is most important for businesses. First of all, it includes connection to electric power grids and good logistic opportunities. Therefore, the government should exercise more efforts to expand respective facilities and to simplify connection to the systems.</p> <p>At present, infrastructural development is mostly financed from the expenditures of the State Budget. Some of the projects are financed within the SFRD, which works as a separate budget programme of the State Budget. It is obvious that one of the SFRD priorities should be financing of development of the utility systems in industrial parks.</p> <p>The roads are repaired and built at the expense of the Road Fund, which is also an element of the State Budget. As for the respective budget programmes, their expenses should be revised, and performance of use of the budget funds should be assessed. It is also important to pay much more attention to the quality of the roads and other infrastructural facilities built.</p> <p>At the same time, a number of infrastructural projects are financed with the IFI loans. According to the data, the drawdown in such projects has considerably increased for the last few years, but it remains lower than the targets. Therefore, the government should exercise efforts to improve the capacity to absorb the funds that can be provided by the international financial institutions for development.</p>
Goal 10. Reduced inequalities	– State Budget – Local budgets	The tasks within Goal 10, which also include rural development pursuant to the national SDG system, are mostly financed within various social support programmes from the state and local budgets. At the same time, the matters of rural development should get more attention both at the central and local levels. Economic growth will facilitate equal income of the population.

¹⁷³ DixiGroup research "Assessment of Performance of the State Expenditures for Coal Industry Restructuring", <https://ua.boell.org/sites/default/files/2021-02/Otsinka%20defektyvnosti%20derzhvydatkiv%20na%20restrukturyzatsiu%20vugilnoi%20galuzi.pdf>

¹⁷⁴ UNEP (2019). Measuring Fossil Fuel Subsidies in the Context of the Sustainable Development Goals <https://wedocs.unep.org/bitstream/handle/20.500.11822/28111/FossilFuel.pdf>

¹⁷⁵ <https://zakon.rada.gov.ua/laws/show/1024-2021-%D0%BF#Text>



Sustainable development goal	Main financing sources	Comment
Goal 11. Sustainable cities and communities	<ul style="list-style-type: none"> – State Budget, including the SFRD – Local budgets – ITA 	<p>Sustainable development of cities and communities is ensured by the specific programmes of the Ministry of Regions, including the SFRD. The community development budgets are also important. The regional development priorities and tasks as to implementation thereof are set by the State Regional Development Strategy until 2027 (SRDS 2027). The respective regional strategies have been adopted in pursuance thereof. At the same time, some of the communities still have not drafted and adopted their development strategies. The importance of the strategies is, without limitation, that they enable businesses to understand the policy of the local authorities as to development of the respective community and to assess the scope of financing to implement the planned changes.</p> <p>A number of the ITA projects are also directed at development of the communities, namely enhancement of their institutional capacity as well as support of drafting of the development strategies. It is obvious that efficiency of such aid depends on the donors' coordination a lot. Different proposals and approaches to the local development strategies proposed by various projects evidently add complexity to introduction of strategic planning at the community level. One of the tasks in this goal is to ensure affordability of accommodation. A number of state programmes are focused on this matter. These programmes are implemented by the state institutions, the source of the authorised and operational capital of which is the State Budget. They include the programmes for cheapening mortgage and leasing of accommodation for representatives of certain occupations, which are implemented by the State Fund for Support of the Youth Residential Construction and the Business Development Fund (Affordable Mortgage 7%). It should also be noted that the State Budget for 2022 provides for financing of residential construction for the ATO veterans.</p>
Goal 12. Responsible consumption and production	<ul style="list-style-type: none"> – Private investment – Financing by IFIs – ME investment 	<p>The investment into this Goal remains insignificant. However, the prevailing source of financing of the tasks in SDG 12 can be private investment in the future.</p> <p>Project financing with concessional loans from the IFIs can also be discussed, but, the same way as in the previous cases, the grant component for the feasibility study is important. In particular, that is applicable to investment by municipal enterprises.</p> <p>In this regard, Ukraine must develop rubbish sorting, which pertains to the competence of the local authorities. It is also very important to construct rubbish recycling plants the land for which is to be allocated by the local authorities.</p>
Goal 13. Climate action	<p>At present, there is lack of financing.</p> <p>Potentially:</p> <ul style="list-style-type: none"> – State Budget – Financing by IFIs – Private investment – Need of ITA 	<p>In Ukraine, this goal has only one task, "to reduce greenhouse gas emissions". As of today, the actual financing of the applicable goals is minor. However, Ukraine must use various sources of funds to achieve this goal against its decarbonisation obligations. They include financing by the IFIs and the EU, private investment, which requires better investment climate and new approaches to environmental tax assessment.</p> <p>Support of Ukraine within the ITA projects will be of importance in terms of efficient approaches to tax assessment of emissions and state support of the private sector to modernise the production facilities in order to reduce greenhouse gas emissions.</p>
Goal 14. Life below water	<p>At present, there is lack of financing.</p> <p>Potentially:</p> <ul style="list-style-type: none"> – State Budget – Financing by IFIs – Private investment – Need of ITA 	<p>According to the analysis, Ukraine lacks funds to finance the tasks for this goal and concentrate more efforts to perform the applicable tasks. Efficient performance of the applicable tasks requires joint efforts of the central and local authorities and private businesses. The sea emissions obviously cannot be reduced without investment. In particular, this includes port infrastructure so concession of the sea ports is a good and efficient tool to raise private investment.</p>



Sustainable development goal	Main financing sources	Comment
		It is important to determine approaches to sustainable use and protection of sea and shore eco-systems, to improve their resilience and recovery based on innovation technologies. Respective assessment and development of solutions based on the global best practices in Ukraine do need the ITA.
Goal 15. Life on land	At present, there is lack of financing. Potentially: – State Budget – Financing by IFIs – Private investment – Need of ITA	According to the experts, at present, there is lack of financing for the goal. At the same time, most tasks of Goal 15 need legislative regulation of a number of matters first, followed by investment. Implementation of this goal obviously requires coordinated efforts of the government authorities, business and international institutions to develop solutions for the natural reserve fund, sustainable forest management, recovery of degraded lands etc.
Goal 16. Peace, justice and strong institutions	– State Budget and international defence budgets – Local budgets – ITA	Defence financing currently is one of the priorities of Ukraine due to the aggression from Russia. The main financing source is the State Budget; also, the international community grants Ukraine financial aid to purchase weapons or provides weapons itself. The international technical assistance in this area also remains important. Goal 16 will be achieved with faster reformation of the defence and industrial complex based on implementation of the Law “On the Defence Procurement”, ¹⁷⁶ the Law “On the Peculiarities of Reformation of State-Owned Defence and Industrial Enterprises”, ¹⁷⁷ and the Strategy for Development of the Defence and Industrial Complex of Ukraine. ¹⁷⁸ At the same time, achievement of the respective indicators of SDG 16 requires further reform of the law enforcement authorities and the judicial system, which needs efficient use of the budget funds. Efficient operations of the anti-corruption authorities (NABU, NACR, SAP, Anti-Corruption Court) as well as State Financial Monitoring Service are also important. Development of the powerful administrative entities is financed from the state and local budgets. Therefore, Ukraine must continue reforming public administration, which is assisted by a number of the ITA projects.
Goal 17. Partnerships for the goals	– Public loans – Local borrowing – Private investment (PPP)	Given the large share of expenditures of the State Budget that are used to service the debt, the value of the public debt is of major importance for the economic policy of the country. Thus, Ukraine should try to raise concessional financing from the IFIs and other international partners. Direct foreign investment is of major importance since the DFI is debt-free inflow of the foreign capital as well as new technologies. The investment climate needs to be improved to increase the DFI inflow. One of the tasks in this Goal is to expand use of the PPP tool to raise private investment. This tool still is not common in Ukraine, but it has a major potential for the national economy.

This report presents the development finance assessment, determines main financing sources for the tasks in terms of the sustainable development goals, but the government

should develop and estimate the value of the specific actions necessary to achieve the SDGs, in particular, by means of the costs and benefits approach.

¹⁷⁶ Law of Ukraine “On the Defence Procurement” dated 17 July 2020 No. 808-IX (<https://zakon.rada.gov.ua/laws/show/808-20#n507>)

¹⁷⁷ Law of Ukraine “On the Peculiarities of Reformation of State-Owned Defence and Industrial Enterprises” dated 13 July 2021 No. 1630-IX (<https://zakon.rada.gov.ua/laws/show/1630-20#Text>)

¹⁷⁸ Decree of the President of Ukraine dated 20 August 2021 No. 372/2021 “On the Strategy for Development of the Defence and Industrial Complex of Ukraine” (<https://zakon.rada.gov.ua/laws/show/372/2021#Text>)



10.2. Conclusions and Recommendations: Strategic Planning

Today's approach to strategic planning is of fragmentary rather than systemic nature. Numerous strategic documents are not always consistent with each other so the government should reconsider development of the legal framework for strategic planning. The sustainable development goals should become an integral part of the strategic documents. In particular, the key performance indicators of different strategies should include the SDG target indicators, and the action plans should incorporate the SDG tasks.

Development of the Budget Declaration should start with adoption of the clear long-term governmental strategy that sets specific priorities and operational goals of the government. There should not be too many priorities due to limited budget financing. Therefore, the strategies adopted by the government must clearly set the value of implementation thereof in terms of various sources of financing.

The efficient operation of the Integrated National Financing Framework (INFF) must help set the priorities.¹⁷⁹ The purpose of this tool is to assist in development of the common concept of the national development priorities and tasks and opportunities for financing thereof, with account of the current development of the country, existing challenges, obstacles and opportunities. It is obvious that this tool can be used efficiently provided that all the stakeholders coordinate their efforts.

Moreover, in consideration of the limited budget funds, the quality of development of the social and economic policy needs to be considerably improved via adequate balance of the short, mid and long-term needs as well as economic, social and environmental elements of sustainable development. It requires, without limitation, development of the legislative framework for strategic planning at the national and local levels.

10.3. Conclusions and Recommendations: State and Local Budgets

In order to increase the tax proceeds for budget financing of sustainable development, the government should improve tax administration without an increase in tax burden of the good-faith tax payers.

- The work of the regulatory authorities to eliminate the common tax evasion and mitigation schemes must be materially improved in order to expand the opportunities of filling the budget as a result of the economy de-shadowing. Improvement of tax administration requires further digitalisation of tax (namely, development of the e-excise duty, cash register accounting systems etc.) and customs (in the first place, increase in the number of fixed and portable scanners, weight groups, GPS locks etc.) control over the goods supply chains from the manufacturer/importer to the end consumer. Special attention should also be paid to automated inter-departmental and international information exchange.
- The draft Tax Compliance Strategy must be finalised and approved by the Government with the emphasis on further simplification of tax administration to save tax payers' time and resources, prevention of common offences in order to avoid financial penalties, development of digital skills of tax payers to use tax and customs electronic services, engagement of opinion leaders, public figures from sports, culture and arts in order to promote the importance of timely and complete payment of taxes to the budget for sustainable development finance.
- Efficiency of the sustainable development tax drivers must be enhanced, in particular, by introducing reports on tax expenses of the budget for financing of the tasks in pursuance of the SDGs. Impact of the driv-

¹⁷⁹ UN Financing for Sustainable Development Report 2019, <https://developmentfinance.un.org/fsdr2019>



ers upon operations of the respective enterprises and sectors as well as development of competition and foreign trade should be assessed.

- The State Tax Service of Ukraine, the State Customs Service of Ukraine, and the newly-established Bureau of Economic Security of Ukraine must keep increasing their institutional capacity, namely by enhancing the risk focus of the controls without excessive interference with the economic operations of good-faith tax payers, establishing zero tolerance to corruption, improving professional skills and integrity in order to win more trust of citizens and businesses.

Moreover, it is important to **increase performance of budget expenditures**:

- The Budget Declaration must be a real benchmark for the future reforms and set the national policy priorities for the mid-term. Furthermore, the mechanism of the Integrated National Financing Framework (INFF) suggested by the UNDP should be used to set the priorities at which specific actions and funds will be directed.
- Regular overviews of expenses should be an important tool to assess performance of expenses and determine the ways to increase efficiency of budget funds. The government should complete the cost overviews in progress and adopt the reports, and also develop applicable amendments to the budget financing on their basis.
- The budget requests and budget programme data sheets must contain specific goals and measurable key performance indicators. The list of the targets should include the indicators of implementation of the sustainable development goals since they are regularly monitored by the Statistics Service. Such indicators will help assess to which extent the budget funds spent have helped achieve the respective sustainable development goals. At the same time, possibility of inclusion of the sub-code for the tasks under the SDGs 2030 must be considered in the budget programmes.

- The SFRD must become the principal tool to finance the priority investment in the communities at the expense of the State Budget whereas the politically prejudiced tool of social and economic subventions should be cancelled. The role of the SFRD is quite significant in modernisation of the infrastructure and facilities that are at the disposal of the local councils. Therefore, the SFRD must be financed in full, as provided for by the Budget Code, without redistribution of funds for different subventions. Enhancement of the budget discipline and performance of budget funds obviously requires analysis of the deputies' influence upon the decisions to allocate financing. One of the priorities for the projects financed from the SFRD must be development of the IP network and applicable infrastructure since the IPs can become one of the efficient business development tools in the regions under certain conditions. In this regard, introduction of special project financing factors in the regions with the highest percentage of the citizens with low income should be considered. Moreover, classification of the projects financed from the SFRD should include the SDG sub-code.

It should be noted that in December 2021 the government finally approved the Strategy for Reforming the Public Financial Management System (for 2022-2025).¹⁸⁰ The Strategy enables to understand the directions and principles of the governmental policy for the PFMS development in the mid-term, which improves predictability of the policy for budget revenues and expenditures at the national and local levels. Timely approval of the actions under the action plan will help improve the performance of the tax and customs administration (which will result in more tax proceeds without excessive tax burden for the good-faith tax payers), performance of budget expenditures and better control by the SASU and ACU.

Better fiscal resilience and, therefore, macroeconomic stability will depend on the consistent implementation of the Public Debt Management Strategy, which has been recently approved, to a large extent.¹⁸¹ The

¹⁸⁰ The text of the strategy is still unavailable, but the Presentation of the Strategy can be found here: https://mof.gov.ua/uk/news/uriad_skhvaliv_strategiiu_reformuvannia_sistemi_upravlinnia_derzhavnimi_f_inansami_na_2022_2025_roki-3262. The previous strategy was approved for the period of 2017-2020.

¹⁸¹ <https://zakon.rada.gov.ua/laws/show/1291-2021-%D0%BF#Text>



efforts of the Government must be aimed at increasing the share of the debt denominated in the national currency, and at increasing long-term loans. It should be also noted that

Ukraine requires enhancement of the institutional capacity in order to fully absorb the funds allocated by the IFIs and other donors as concessional loans.

10.4. Conclusions and Recommendations: International Financing

Ukraine has received considerable financing from the international financial institutions for the last few years. This financing is granted as concessional loans, so it is more beneficial than market loans at the domestic and foreign markets. However, Ukraine has failed to draw all the funds under the applicable international arrangements. That applies both to the budget support and IFI loans to finance social and economic development projects.

The following steps are important to increase concessional lending from the IFIs to support social and economic development projects:

- The decisions of the Government and the Parliament must be unconditionally consistent with the international obligations of Ukraine, and implementation thereof must be an unconditional priority of the economic policy. In the first place, that is implementation of the cooperation programmes of the international financial institutions (IMF, World Bank), the EU etc.
- It is important to improve the capacity of beneficiaries and contractors within the economic and social development projects financed with concessional loans from the IFIs. In particular, beneficiaries must be able to clearly and realistically determine their needs and expectations whereas the contractors must implement the applicable projects in a clear and efficient manner. This task will be resolved with the help of the grant component of the projects in form of the international technical assistance.
- Given the low capacity of the central and local authorities to concurrently implement lots of projects, clear prioritisation of the IFI projects is necessary. It requires amendments to the priorities of raising funds from the IFIs and forms of use thereof by means of the sustainable development goals as a benchmark.
- The national SDG indicators approved for the period until 2030 are most suitable for setting priorities for the projects financed at the expense of the ITA and IFI funds, and monitoring implementation thereof. Application of these indicators to assess the applicable projects can be considered to be one of the steps to form the sustainable development policy.
- In order to select the priority projects to be financed from the IFIs, it would be reasonable to teach the representatives of the governmental authorities to use the practical methods of the target indicators assessment developed by the World Bank for the public, industry-specific or city strategies and programmes by adapting them to the Ukrainian environment.
- The institutional mechanisms for implementation management must be improved for efficient use of the funds within the projects financed by the IFIs. Moreover, the governmental authorities must be held liable for inefficient support of such projects (they are specialised ministries, project management groups established at the state institutions). For this purpose, it is recommended to introduce the multi-level system for monitoring and control over performance of the borrowed funds and of the project management groups.
- Introduction of the mandatory project proposal assessment in terms of their consistent with the sustainable development goals before a decision is made to conduct a feasibility study should also be introduced. It will enable to save the funds that are used for feasibility studies for the projects that will not be selected for financing in the end. At the regional level, it is important to ensure implementation of the special ITA projects within which standard feasibility studies could be developed for the water supply, waste water disposal, waste treatment and other projects.



- Clear and understandable priorities of using the ITA funds should be set with account of the tasks set by the national sustainable development goals. In this regard, the official ITA coordination portal should resume its operations.
- In order to inform the stakeholders (at the national and local levels) of the possibility of ITA and IFI loans, guidelines should be developed on the procedure for raising the ITA and project financing with the borrowed funds, and regular training on these matters must be conducted for the representatives of public authorities in different formats, with workshops and conferences organised.
- Donors' coordination is of utmost importance for the efficient ITA. In particular, there should be regular meetings at the national and local levels involving the central and local authorities, donors and representatives of the key public organisations. Themed meetings must also be attended by the business representatives. The matrix of coordination of the aid from different donors by the themes is also very important as it will help assess probable gaps or, on the contrary, duplication of the aid, and the existing projects will be able to coordinate their activity better.

10.5. Conclusions and Recommendations: Financial System

In Ukraine, the scope of long-term bank financing is limited in comparison with the other European countries. A large share of the bank loans was received by the agroindustrial and trade enterprises whose investment projects can facilitate achievements of Goals 2 (zero hunger) and 9 (economic development). The development level of the non-banking financial system still is insufficient as a source of funds to finance the SDGs. Alternatives to the long-term bank financing still have not been formed. Major enterprises can raise funds abroad, but it poses additional risks (forex risk, changes in foreign investors' attitudes etc.). The steps stipulated in the Financial Sector Development Strategy until 2025 can help form the financial system that will offer more opportunities to finance the sustainable development goals. However, performance of the tasks set by the Strategy will probably take more time than planned.

The basic reforms, including the judicial one, further improvement of the monetary and fiscal policies, are important preconditions for development of the financial market. Fulfilment of the obligations to adapt the financial service laws under the Association Agreement is a necessary precondition for integration of the financial sector into the EU market.

To our mind, the following should be done in the banking sector today:

- To create conditions for expanding bank lending to enterprises with the paying capacities and reducing the gap between the interest rates for the loans and deposits.
- To consider refocus of 5-7-9 programme on lending to the investment projects.
- To pay special attention to implementation of the reforms directed at:
 - Development of the system for efficient regulation of the financial sector and improvement of surveillance over the market players.
 - Shock-resilience of the banking sector.
 - Better quality of the corporate and risk management.
 - Better protection of creditors' and investors' rights.

After the powers to regulate insurers, credit unions and non-bank financial institutions had been transferred to the NBU, the quality of surveillance improved and some of the institutions left the market. Purification of this market segment is the first positive step for development thereof. Development of this segment of the financial system in Ukraine includes expansion of the non-bank lending in the areas with the low coverage with bank services (most areas beyond the regional centres). However, lending at ultra-high rates and occurrence of sort of the "debt pit" should be avoided.



Development of life insurance and other types of insurance will increase the scope of long-term financial resources in the economy. In this regard, state encouragement of introduction of own corporate staff insurance programmes should be considered. Nevertheless, possibility of exclusion of staff insurance from the individual income tax (IIT) assessment base for the respective expenses should be considered.

The capital market and investment funds in the classic format play the minimum role in the Ukrainian economy. The legislative amendments that enabled the majority shareholders to redeem small packages of shares on the market narrowed the list of securities in circulation even more. This situation simplifies the capital market reform, but the question is how the market is to be launched. It obviously requires a number of actions that should be listed together with the stakeholders.

The financial sector development strategy provides for formation of the liquid market and a number of actions, but the mechanism for implementation thereof is not fully understandable. That is why these steps need to be clarified:

Extension of the list of shares and bonds in circulation, which is of critical importance for development of the financial market.

- Support of further formation of classic CIS, venture and hedge funds.
- Introduction of green bonds and other green financing instruments.
- Encouragement of IPO and issue of bonds in Ukraine, development of circulation of securitisation securities and other capital raising instruments.
- Development of mass project financing platforms by means of the capital market infrastructure in Ukraine.

In case the defined contribution pension system is introduced, and the Future Generation Fund is established with the rental charges from the mining industry, investment of the respective funds with account of the sustainable development goals should be considered. The quality of respective institutions and state regulation will obviously be of critical importance since otherwise risks can be much greater than the expected economic effects. Special attention should be paid to protection of these funds, which requires efficient investment tools; the only available one today is DGLB.

10.6. Conclusions and Recommendations: State Enterprises

In general, more than a half of the identified investment of the state enterprises in 2020 was made by five enterprises (Ukrainian Railways, Enerhoatom, Ukrenergo, Ukrhydroenergo, USPA). Moreover, almost 90% of the investment was associated with two main SDGs, 7 and 9. The active reorganisation of state enterprises, transition to the IFRS and revaluation of the assets, absence of the detailed financial statements for many medium-sized state enterprises have added material complexity to the analysis. The state enterprises have also financed their sustainable development actions within the corporate social responsibility, but information on the scope and types of such expenses is available only on some state enterprises, and these data are practically incomparable.

- Loan financing by the IFIs played the considerable role at the enterprises with the biggest

investment. The major companies placed eurobonds. The rest of the investment was mostly made with the own funds of enterprises. In order to increase and diversify financing of sustainable development projects by the state enterprises, a number of actions must be taken at the national level and at the level of enterprises themselves. The government should fully implement the plans on triage of the state enterprises. It will enable to considerably reduce the list of the state-owned enterprises. The other enterprises are to be either transferred to the State Property Fund of Ukraine for privatisation or wound up/declared bankrupt. As for the banking system, the share of the state must be reduced by privatising the state-owned banks.

- The corporate management reform at the state enterprises must be continued pur-



suant to the OECD corporate management principles. The enterprises that will remain state-owned must have independent supervisory board and qualified members of the board. The Cabinet of Ministers and respective ministries as owners should adopt the ownership policies with the key performance indicators, which, without limitation, can include indicators for the applicable sustainable development goals.

- Today it is important to shift to the economically reasonable policy for setting the tariffs for the services and goods that are produced and provided by state enterprises. Social support of the population must be provided via direct social support mechanisms rather than universal subsidy mechanisms (i.e. the tariffs lower than the net cost). In this case, the tariffs must have the investment component. It will not only improve financial results of the state enterprises, but also reduce fiscal risks, which will increase the macroeconomic stability.
- The following steps should be taken to enhance transparency of operation of the state enterprises as to SDG financing:

- The tax authorities should add more data on achievement of the SDGs, which can generally be found in the notes to financial statements, to the published data.
- Data in the management reports/non-financial reports of the state enterprises must be submitted in the standard format.
- For the scope of investment by state enterprises to be expanded, the following must be done:
 - To take a number of actions in order to reduce the number of loss-making state enterprises.
 - To consider reduction of the ratio of the profit transferred to the State Budget.
 - To eliminate the existing obstacles to obtaining domestic loans (in particular, regulation of debts for the loans for current operations, participation in Affordable Loans 5-7-9).
 - To increase performance of the funds allocated by the IFIs.
 - To simplify the procedures for approval of investment programmes and respective sections of financial plans of the enterprises.

10.7. Conclusions and Recommendations: Private Investment

Private investment, including the one with own funds of enterprises, is a powerful source of financing of the sustainable development goals that are consistent with the investment programmes of the private companies. Although private enterprises finance other sustainable development goals, the scope is quite limited.

The national policy for private investment was directed at less interference of the state with the production and commercial activities of private companies until recently. The deregulation reforms reduced the administrative obstacles to private investors, especially in the construction industry. It was recently decided to enhance the role of the state by creating the institute of “investment nannies”, expanding the types of support of industrial parks and establishing the Natinvestfund. However, all these efforts also require financing and efficient implementation to materially influence private investment. So it is difficult to forecast the effect of the recent amendments to the national policy at this stage.

However, the private investment remains limited. The amendments that will facilitate improvement of the investment climate are necessary to accelerate the economic growth of Ukraine. These amendments must protect ownership, so they include the judicial and law enforcement reforms.

The following directions of political amendments necessary to increase private investment, both domestic and foreign one, can be specified:

To consider the tasks to expand financing of the sustainable development goals in development of the national policy for raising investment into the economy, including the above-mentioned programme document.

- To encourage unified reporting on the sustainable development goals among the companies that disclose such information.
- To encourage bank lending to enterprises for investment goals and to develop the capital market (see Section 10.5).



- To conduct basic reforms in order to improve the investment climate and preserve the progress of the completed reforms¹⁸²:
 - Judicial reform, protection of ownership and law enforcement.
 - Fight against corruption and abuse of power by the law enforcement authorities.
 - Market demonopolisation and limitation of influence by oligarchs.
 - Responsible fiscal policy that guarantees stability of the public finance.
 - Large-scale privatisation, including privatisation of state banks, reform of the tax system and customs administration in order to considerably reduce the share of the shadow economy.
- More progress in performance of the Association Agreement.
- To provide for higher capacity of the local authorities to create and finance industrial parks.
- Development of the PPP requires the economically sound policy for setting administrative service tariffs. The sustainable development goals should be included into the PPP principles.

10.8. Recommendations: Enhancing the Institutional Capacity and Communication

Enhancement of the institutional capacity of the authorities to efficiently perform their functions and demonstrate prompt and adequate response to the current political, social, economic and security challenges is the extremely important condition for mobilisation of development finance and efficient use thereof for the essential priorities. It requires special attention to development of the management potential of the principal budget owners in terms of development of the strategic documents of the policy that would contain specific tasks, the list of tools for implementation thereof and key indicators of achievement thereof based on the SMART principles and applicable financial and economic calculations.

The following should be done for this:

- To organise training for the representatives of the local authorities on the principles of and methods for development of the strategic documents and determination of the key performance indicators of the applicable strategies based on the SMART principle. In this case, the SDGs should be used as key indicators for many policies.
- To organise training for the representatives of the local authorities on the principles and practice of mid-term budgeting with the focus on consistency of the strategic plans and financial capacity.

Better understanding of importance of achieving the SDGs both at the central and local levels and higher qualifications of civil servants and deputies of all levels require inclusion of the training on the applicable themes, including the methodology for financial development assessment and prompt integrated assessment, into the advanced training courses for civil servants. In particular, special programmes for the matters of sustainable development and achievement of the SDGs, poverty and social impact analysis should be introduced.

The SDGs cannot be achieved without an active role of national businesses. Development of the corporate social responsibility of businesses is of utmost importance under such conditions. The state evidently must encourage development of the corporate social responsibility by implementing the Concept of Implementation of the National Policy for Development of the Socially Responsible Business in Ukraine until 2030.¹⁸³

The communication element is important for performance of the tasks in pursuance of the sustainable development goals since, as it has been stated above, the condition necessary for development and implementation of the sustainable development policy is the dialogue and cooperation between the authorities, businesses and citizens. One of the elements of the dialogue and communication may be annual parliamentary hearing on achievement of the SDGs 2030.

¹⁸² Reforms Based on the List in the Draft DFI Strategy <https://ukraineinvest.gov.ua/wp-content/uploads/2021/08/FDI-Strategy-Section-3-The-Vision-and-Goals-UKR.pdf>

¹⁸³ Cabinet of Ministers of Ukraine, Decree dated 24 January 2020 No. 66-p, Kyiv, On Approving the Concept of Implementation of the National Policy for Development of the Socially Responsible Business in Ukraine until 2030 (<https://zakon.rada.gov.ua/laws/show/66-2020-%D1%80#Text>)



ANNEX

11.1. Map of Stakeholders in Public / Private and Internal / External Terms of Development Finance

Table 14: Map of Stakeholders in Public / Private and Internal / External Terms

	Public	Private
Internal	<ul style="list-style-type: none"> • Linear ministries • Local authorities • State Fund for Regional Development • Business Development Fund • Startup Fund • State and municipal enterprises • State banks • UkrlInvest 	<ul style="list-style-type: none"> • Private companies • Commercial private banks • Credit unions and other financial organisations • Investment funds • Venture funds • Crowdfunding platforms • Non-governmental organisations (NGOs)
External	<ul style="list-style-type: none"> • International financial institutions <ul style="list-style-type: none"> – World Bank Group (World Bank and IBRD) – IMF – EBRD – EIB – KfW • Other international organisations and governments of individual EU Member States in general and different EU Member States in particular <ul style="list-style-type: none"> – USA, Canada, Japan and other countries of the OECD DAC – UAE and other countries 	<ul style="list-style-type: none"> • Commercial banks • Investment companies • International NGOs

Therefore, the development finance sources can be divided into the following groups:

- Public / private internal financing
- Public / private external financing
- Mixed financing:
 - Public-private partnership
 - Social and investment projects financed by the IFIs against the state guarantees or as loans to the state
 - Commercial loans against the state guarantees

The principal financing forms can include:

- Direct investment
- Portfolio investment
- Loans
- Grants
- Transfers.



11.2. Current Progress in Achievement of the Sustainable Development Goals

Goal 1. No poverty	
	1.1. To reduce the level of poverty four times, namely by remedying its extreme forms
	1.2. To increase coverage of the poor people with targeted social support programmes
	1.3. To improve the viability of socially vulnerable populations
Goal 2. Zero hunger, development of agriculture	
	2.1. To ensure accessibility of balanced diet at the level of scientifically substantiated standards for all the populations
	2.2. To increase agricultural performance twice, in the first place, by using innovation technologies
	2.3. To facilitate creation of sustainable food production systems, which helps preserve eco-systems and gradually improves the quality of land and soil, in the first place, owing to innovation technologies
	2.4. To reduce the volatility of food prices
Goal 3. Good health and well-being	
	3.1. To reduce maternal mortality
	3.2. To mitigate the deaths that can be prevented among children younger than five
	3.3. To stop the epidemics of HIV/AIDS and tuberculosis, including by means of innovation practices and treatment
	3.4. To reduce early deaths as a result of non-infectious diseases
	3.5. To reduce early deaths, including by introducing innovation diagnostic approaches
	3.6. To reduce the level of severe injuries and deaths as a result of road accidents, including by means of innovational intensive care, treatment and rehabilitation practices for those affected by the road accidents
	3.7. To ensure general quality immunisation of the population with innovation products
	3.8. To reduce the level of tobacco smoking by using the innovation means of raising awareness of negative consequences of tobacco smoking
	3.9. To reform the health care financing system
Goal 4. Quality education	
	4.1. To ensure access to quality education for all the children and teenagers
	4.2. To ensure access to quality pre-school development for all the children
	4.3. To ensure access to vocational education
	4.4. To improve the quality of higher education and to ensure its close connection with science; to promote formation of cities of education and science in the country
	4.5. To increase the spread of the knowledge and skills necessary to find a decent job and do business among the population
	4.6. To eliminate gender inequality among school teachers
	4.7. To create modern training conditions in school, including inclusive education based on innovation approaches
Goal 5. Gender equality	
	5.1. To create conditions for eliminating all the forms of discrimination of women and girls
	5.2. To reduce the level of gender-based and domestic violence, to ensure efficient prevention thereof and timely help to its victims
	5.3. To promote joint responsibility for housekeeping and upbringing of children
	5.4. To create equal representation opportunities at the top decision-making levels in the political and social life
	5.5. To expand public access to family planning services and to reduce the level of teenage pregnancies
	5.6. To expand economic capacity of women
Goal 6. Clean water and sanitation	
	6.1. To facilitate accessibility of quality services of safe drinking water supply, construction and reconstruction of the centralised drinking water supply systems by means of advance technologies and equipment



6.2. To facilitate accessibility of modern waste water disposal systems, construction and reconstruction of water collection and sewage treatment facilities by means of advance technologies and equipment

6.3. To reduce the volume of untreated waste waters, namely by means of the innovation water treatment technologies at the state and personal levels

6.4. To increase water use performance

6.5. To facilitate introduction of the integrated water resource management.

Goal 7. Affordable and clean energy

7.1. To expand the infrastructure and to upgrade the systems to ensure reliable and sustainable power supply based on the innovation technologies

7.2. To ensure diversification of supply of primary power resources

7.3. To increase the share of power from the renewable sources in the national energy balance, in particular, by introducing the additional capacities of the facilities that generate power from renewable sources

7.4. To increase the energy-efficiency of the economy

Goal 8. Decent work and economic growth

8.1. To ensure sustainable GDP growth based on production upgrade, innovation development, increase in the export potential and placement of products with the high share of the added value to the external markets

8.2. To increase production performance based on sustainable development and development of high-technology competitive production facilities

8.3. To increase the level of public employment

8.4. To reduce the share of the youth who do not work, do not study and do not acquire professional skills

8.5. To facilitate creation of reliable and safe working conditions for all the workers, namely by means of innovation technologies in occupational and industrial safety

8.6. To create the institutional and financial capacity for self-fulfilment of the potential of the economically active part of the population and development of the creative economy

Goal 9. Industry, innovation and infrastructure

9.1. To develop the quality, reliable, sustainable and accessible infrastructure based on use of innovation technologies, including environmentally-friendly means of transport

9.2. To facilitate wide use of electric transport and respective infrastructural network

9.3. To facilitate availability of the road and transport infrastructure based on the innovation technologies, namely by expanding the forms of participation of the government in various infrastructural projects

9.4. To facilitate rapid development of high- and medium-to-high-technology sectors of the processing industry formed based on the chains "education – science – production" and cluster approach in the following areas: development of the innovation eco-system; development of the information and telecommunication technologies (ITC); use of the ITC in the agroindustrial industry, power industry, transport and manufacturing industry; high-technology machine building; creation of new materials; development of the pharmaceutical and bioengineering industries

9.5. To increase the financial and institutional systems (innovation infrastructure) that will facilitate research and (experimental) development

9.6. To ensure access to the Internet, especially in the countryside

9.7. To increase participation of the youth in scientific research

Goal 10. Reduced inequalities

10.1. To ensure rapid increase in income of 40% of the population with the lowest income

10.2. To prevent discrimination in the society

10.3. To ensure accessibility of social services

10.4. To apply the labour remuneration policy based on equality and justice

10.5. To reform the pension insurance based on justice and transparency

Goal 11. Sustainable cities and communities

11.1. To ensure affordability of accommodation

11.2. To ensure development of settlements and territories solely based on comprehensive planning and management with participation of the public



	11.3. To ensure preservation of the cultural and natural heritage with participation of the public sector
	11.4. To inform the public of emergencies on time by means of information technologies
	11.5. To reduce the negative impact of contaminants, including upon the environment, namely by means of innovation technologies
	11.6. To ensure development and implementation of the local development strategies directed at economic growth, creation of jobs, development of tourism, recreation, local culture and production of local goods
Goal 12. Responsible consumption and production	
	12.1. To reduce the resource intensity of the economy
	12.2. To reduce food losses in the production and distribution chains
	12.3. To ensure sustainable use of chemical substances based on innovation technologies and production facilities
	12.4. To reduce the volume of generated waste and to increase the recycling and re-use volume based on the innovation technologies and production facilities
Goal 13. Climate action	
	13.1. To reduce greenhouse gas emissions in the economy
Goal 14. Life below water	
	14.1. To reduce sea contamination
	14.2. To ensure sustainable use and protection of sea and shore eco-systems, to improve their resilience and recovery based on innovation technologies
	14.3. To introduce efficient regulation of production of sea bioresources
Goal 15. Life on land	
	15.1. To ensure preservation, recovery and sustainable use of land and internal fresh water eco-systems
	15.2. To promote sustainable forest management
	15.3. To restore degraded lands and soils by means of innovation technologies
	15.4. To ensure integrity of mountain eco-systems
Goal 16. Peace, justice and strong institutions	
	16.1. To reduce the spread of violence
	16.2. To improve the level of detecting those affected by human traffic and all forms of exploitation
	16.3. To increase the level of trust in court and to ensure equal access to justice
	16.4. To enhance the system for preventing and fighting money laundering, financing of terrorism and proliferation of weapons of mass destruction
	16.5. To reduce the illegal circulation of weapons, ammunition and explosives
	16.6. To reduce the scope of corruption
	16.7. To increase performance of governmental and local self-government authorities
	16.8. To restore the territory affected by the conflict (Donbas)
	16.9. To improve social resilience, to promote peace-building and public safety (conflict and post-conflict regulation)
Goal 17. Partnerships for the goals	
	17.1. To raise additional financial resources by encouraging investment by foreign and national investors
	17.2. To gradually reduce the debt pressure upon the economy
	17.3. To develop partner relations between the authorities and businesses to achieve the sustainable development goals

Legend:

- Sufficient progress to perform the task
- Acceleration necessary to perform the task
- Reverse trend in performance of the task
- Impossible to measure

Source: Statistics Service¹⁸⁴¹⁸⁴ <http://ukrstat.gov.ua/csr prezent/ukr/ukr4/index.html#>



11.3. Tax Administration and Allocation of Budget Revenues among the Budget Levels

Revenues of the consolidated budget are based on *tax* and *non-tax proceeds*. The revenues of the consolidated budget also include the sources with less financial significance: *revenues from capital transactions, official transfers from the European Union, governments of foreign states, international organisations and donor institutions, and targeted funds*. Privatisation proceeds and loans are the sources to finance shortfall, so they are not included into budget revenues.

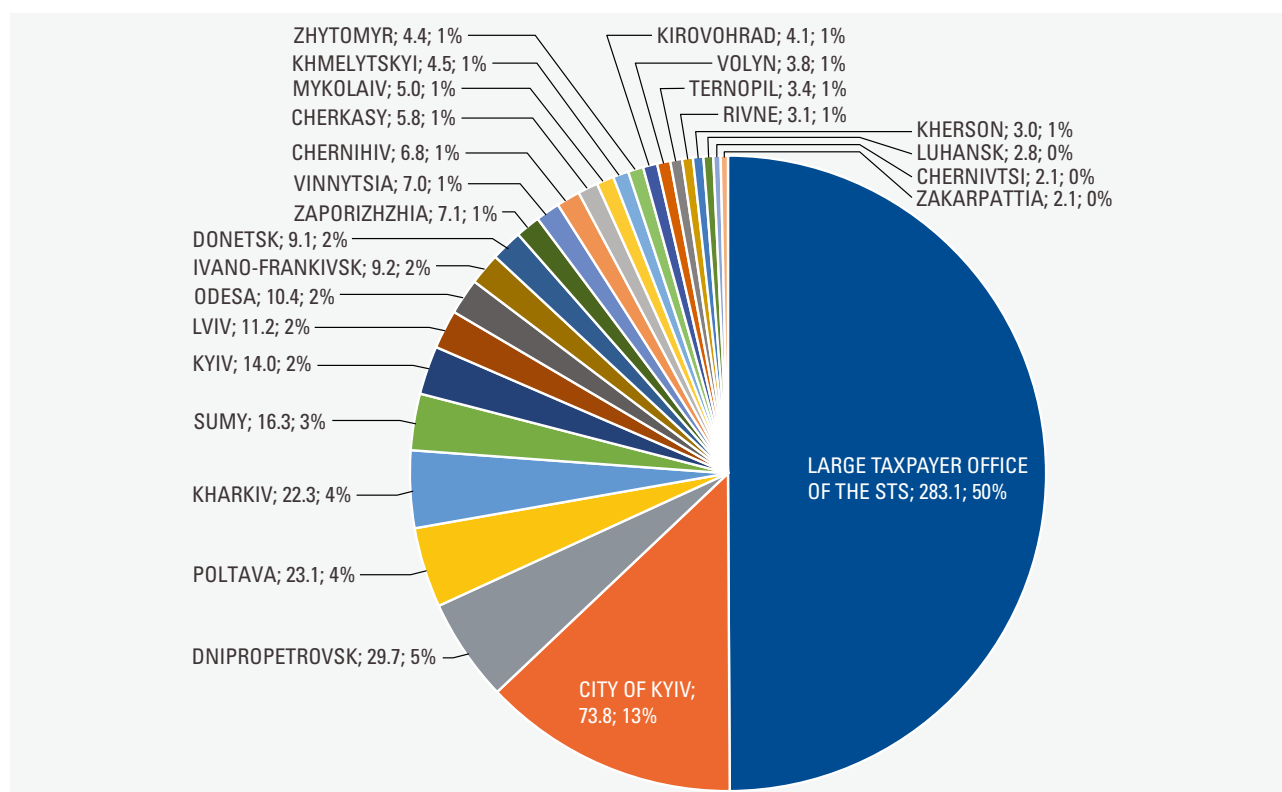
Tax proceeds include direct and indirect taxes. Indirect taxes include the VAT, excise tax, import and export duties, which are fully credited to the State Budget. Some of the excise tax is credited to the local budgets. Indirect taxes make a little more than a half of revenues of the consolidated budget. The other taxes are direct, and they are distributed between the state and local budgets.

The main source of funds for the State Budget is large tax payers that are registered by five Interregional Departments of the State Tax Service of Ukraine for Large Tax Payers (which used to be the Large Taxpayer Office of Ukraine of the State Fiscal Service). As for the regions, most taxes are paid in the City of Kyiv and Dnipropetrovsk, Poltava, Kharkiv and Sumy Regions (Figure 46).

Insert: Large Tax Payer

According to the Tax Code of Ukraine, a large tax payer is a legal entity or permanent representative office of the non-resident in Ukraine whose revenues from all the types of activity for the last four tax (reporting) quarters in a row exceed the equivalent of **50 million euros**, or the total amount of taxes, levies, payments to the State Budget of Ukraine controlled by the regulatory authorities, except for the customs payments, for the same period exceeds the equivalent of **1.5 million euros**.

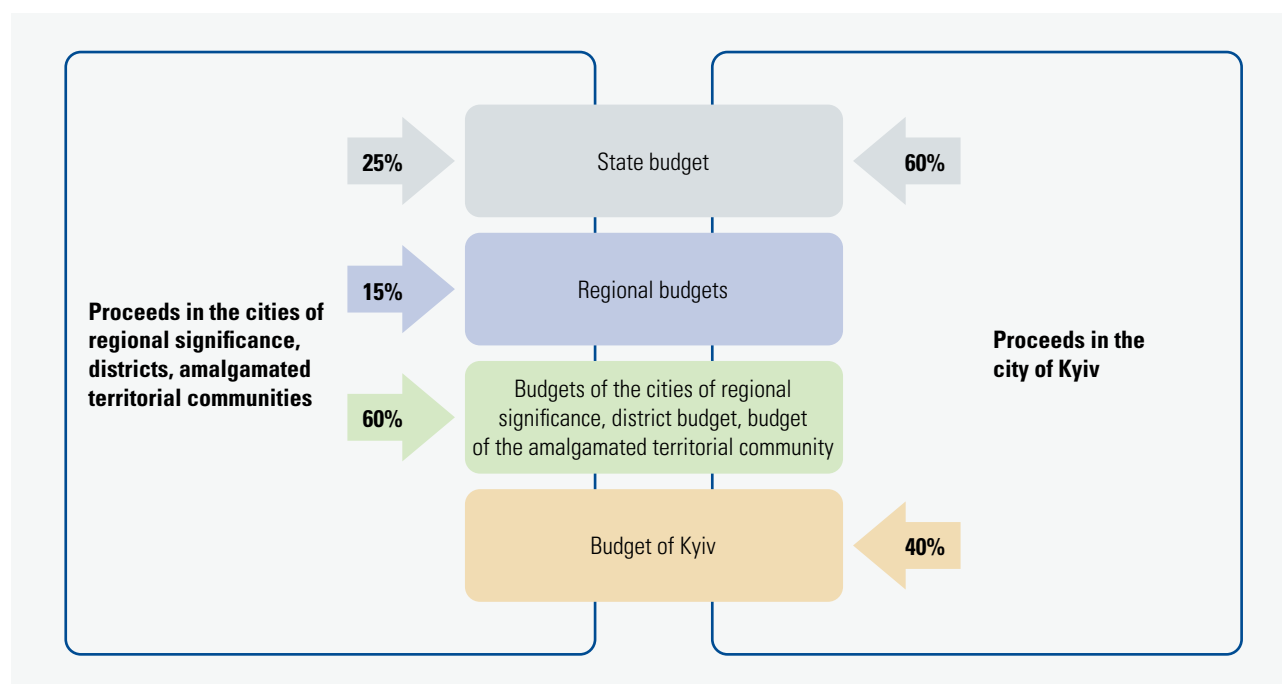
Figure 46: Structure of tax payments to the State Budget of Ukraine by the regions in 2020, billion Ukrainian hryvnias and %



Source: based on the data from the State Tax Service of Ukraine¹⁸⁵

¹⁸⁵ Proceeds of taxes and levies as of 01.01.2021 State Tax Service of Ukraine. <https://tax.gov.ua/diyalnist/-pokazniki-roboti/nahodjennya-podatviv-i-zboriv--obov'яз/nahodjennya-podatviv-i-zboriv/>

Figure 47: Ratios of division of the individual income tax according to the Budget Code of Ukraine



Source: Ministry of Finance of Ukraine

The IIT proceeds are allocated between the state and local budgets (Figure 47).

Excise tax. It has three types: (1) *excise tax on the excisable goods (products) made in Ukraine*; (2) *excise tax on the excisable goods (products) imported into the customs territory of Ukraine*; (3) *excise tax on retail trade in the excisable goods*. According to the Tax Code of Ukraine, the excisable goods include:

- ethyl alcohol and other alcohol distillates, alcohol drinks, beer (except for kvass of “live” fermentation);
- tobacco products, tobacco and industrial tobacco substitutes;
- liquids used in electronic cigarettes;
- fuel;
- passenger vehicles, bodies thereof, trailers and semi-trailers, motorbikes, vehicles to carry more than ten people, cargo vehicles;
- electric power.

According to the Tax Code of Ukraine, the local taxes and levies include two taxes and two

levies. The local taxes include the property tax and the fixed tax. The property tax is made of: (1) land charges; (2) tax on the real estate different from the land plot; (3) transport tax. The land charges being a part of the property tax are paid as the land tax or lease charges for the state and municipal land plots. The local levies include the parking levy and the tourist levy.

According to the Tax Code of Ukraine, the rental charges include:

- rental charges for subsoil use to extract mineral resources;
- rental charges for the purposes other than to extract mineral resources;
- rental charges for use of radio frequency resources of Ukraine;
- rental charges for special water utilization;
- rental charges for special use of forest resources;
- rental charges for transportation of oil and oil products by main oil pipes and oil product pipes, transit transportation of ammonia across Ukraine by pipes.



Table 15: Division of tax proceeds among the budget system levels and the unified contribution to the mandatory state social insurance

Tax and non-tax payments by the payers		
Consolidated budget		Unified contribution to the mandatory state social insurance
State Budget of Ukraine	Local budgets*	
Individual income tax (60% in Kyiv, 25% in the other regions of Ukraine), IIT from tax assessment of the passive income (100%)	Community budgets: 40% in Kyiv, 60% in the other regions of Ukraine Regional budget and budget of the AR of Crimea – 15% (Figure 47)	The unified contribution to the mandatory state social insurance is the consolidated insurance contribution that is collected to the system for the mandatory state social insurance on a regular basis, in order to ensure protection as prescribed by the law, to protect rights of the insured to their insurance benefits (services) for the effective types of the mandatory state social insurance. The amount of the unified contribution to the mandatory state social insurance is divided into: mandatory state social insurance against unemployment – 4.8058% in 2021;
Military tax		
Corporate income tax (90%)	10 %	
Rental charges for special use of forest resources (partly)	Partly	
Rental charges for special water utilisation (partly)	Partly	
Rental charges for subsoil use (partly)	Partly	
Rental charges for use of radio frequency resources of Ukraine		
	Charges for use of other natural resources	
Rental charges for transportation		
Excise tax on the excisable goods (products) made in Ukraine	13.44% excise tax on the manufactured fuel	
Excise tax on the excisable goods (products) imported into the customs territory of Ukraine	13.44% excise tax on the imported fuel	mandatory state social insurance against temporary loss of the ability to work and mandatory state social insurance against an occupational accident and occupational disease that have caused the loss of the ability to work – 9.5727% in 2021; mandatory state pension insurance (to the solidarity system) – 85.6215% in 2021.
	Excise tax on retail trade in excisable goods by economic operators	
VAT on the products (works, services) made in Ukraine		
VAT on the goods imported into the customs territory of Ukraine		
Import duty, export duty		
	Local taxes and levies (property tax, parking levy, tourist levy, fixed tax)	
Environmental tax (partly)	Partly	
Part of net profit of state enterprises	Part of net profit of municipal enterprises	
Funds transferred by the NBU		
Payment for placement of the idle cash from the State Budget	Payment for placement of the idle cash from the local budgets	
Payment for administrative services	Payment for other administrative services effected at the place of provision thereof	
Court fee and proceeds from foreclosure for the benefit of the state		
Funds received for consular actions		
Enforcement duty		
Proceeds from lease charges for using the asset group and other state property	Proceeds from lease charges for using the asset group and other property in municipal ownership	
	State duty	
Fixed levy paid at the checkpoints (control points) at the state border of Ukraine		



Tax and non-tax payments by the payers		
Consolidated budget		Unified contribution to the mandatory state social insurance
State Budget of Ukraine	Local budgets*	
Revenues from lending transactions and provision of guarantees (from the State Budget)	Revenues from lending transactions and provision of guarantees (from the local budgets)	
Levy for the social and economic compensation for the risk of the population residing in the territory of the observation zone		
Levies for the mandatory state pension insurance for the specific types of economic transactions		
Concession charges for the state facilities	Concession charges for the municipal facilities	
	Funds received from equity interests in development of the infrastructure in the settlement	
Own proceeds of budget institutions	Own proceeds of budget institutions	
Revenues from capital transactions	Revenues from capital transactions	
Official transfers from the European Union, governments of foreign states, international organisations and donor institutions	Official transfers from the European Union, governments of foreign states, international organisations and donor institutions	
Target funds, proceeds to the Fund of Social Protection of Persons with Disabilities	Target funds established by the VR of the ARC, local self-government authorities and local executive authorities	
Official transfers from the public administrative authorities – reverse subsidies, subventions from the local budget to the State Budget for the social, economic and cultural development programmes of the regions	Official transfers from the public administrative authorities – subsidies and subventions from the State Budget	

Note: local budgets – budget of the ARC, region, district budgets and local self-government budgets (budgets of village, urban village, city territorial communities as well as budgets of districts in the city in case city district councils are established).

11.4. Financing Projects from the SFRD

The rules for preparation, submission and assessment of investment projects are set by the resolution of the Cabinet of Ministers of Ukraine¹⁸⁶. The project consideration procedure is as follows:

FIRST STAGE:

- The investment project initiator prepares and submits the conceptual note that has to contain the data prescribed by the Resolution of the Cabinet of Ministers to the principal budget owner.
- The state investment project provides for making a plan and estimate documents and subsequent adjustment, if necessary.
- State expert examination of the investment project is conducted, and the opinion is issued to the contractor.
- The Ministry of Economy either accepts or rejects investment projects for the project selection.
- The Ministry of Economy selects state investment projects based on the criteria specified in the Resolution.

¹⁸⁶ <https://zakon.rada.gov.ua/laws/show/196-2015-%D0%BF#Text>



SECOND STAGE:

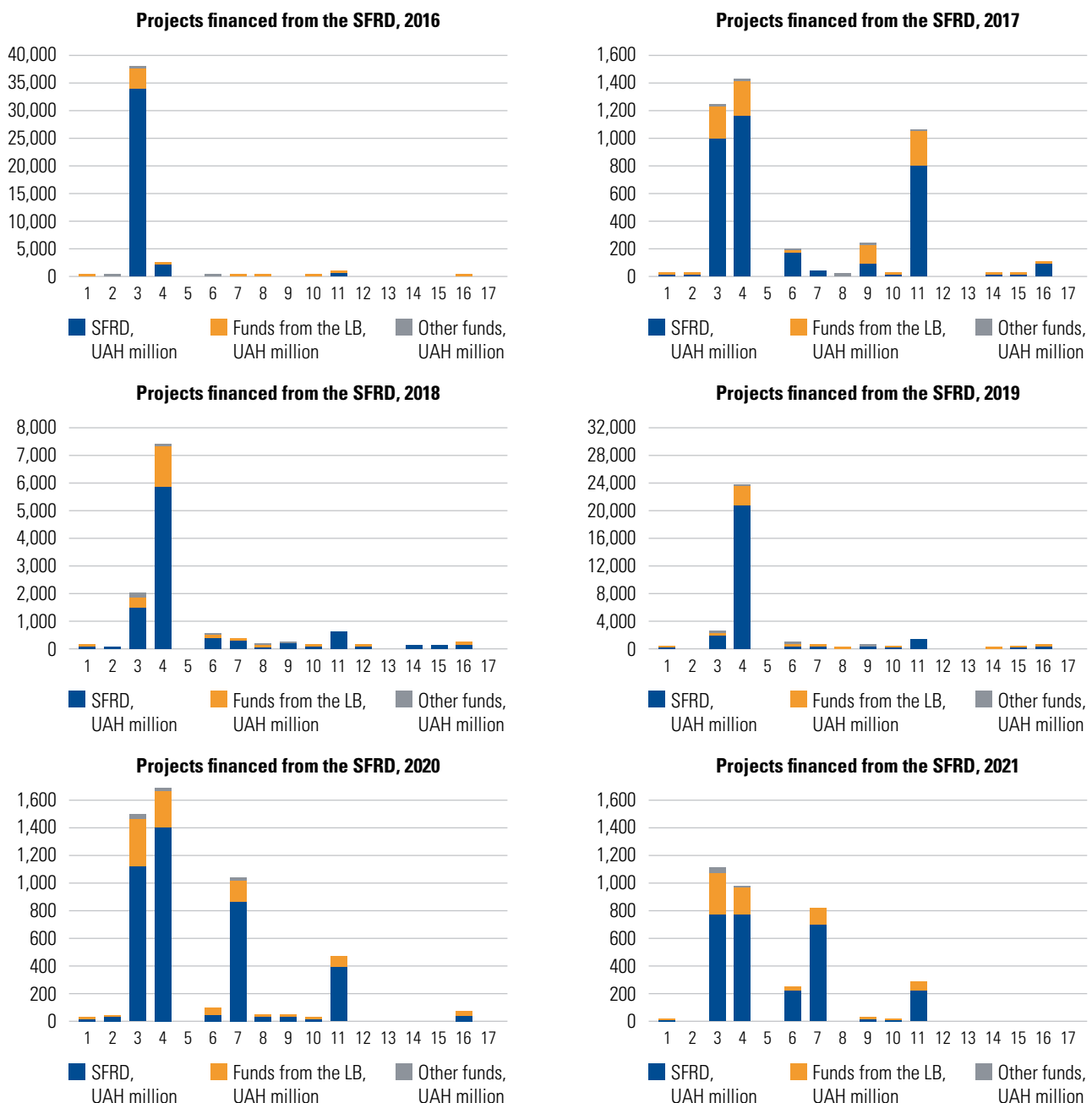
- The Commission takes a decision on the outcome of the project selection for the planned and two following budget periods.
- The principal budget owners submit amended Section III of the selected project (with the rationale and appendices) to the Ministry of Economy within fifteen days upon the effective date of the Law on the State Budget of Ukraine.
- The Ministry of Economy monitors the progress of development and implementation of the projects based on the reports on the progress of development and implementa-

tion of the projects submitted by the budget owners.

- If the terms for development are violated or the cost of the projects is more than 10% higher or inconsistency between the procured item and the purpose and final result is detected during the budget period as a result of the monitoring, such projects are to be reconsidered as to redistribution of the state capital investment into the projects.

The findings of the expert evaluation of the ratio between the projects implemented at the expense of the SFRD and the sustainable development goals are presented in Figure 48.

Figure 48: Project financing at the expense of the SFRD, million Ukrainian hryvnias





11.5. Procedure for Submission, Consideration and Selection of the Project to Finance the SIP

The rules for preparation and assessment of the investment projects are set by the Ministry of Economy¹⁸⁷. In particular, the respective projects shall contain:

1. Summary of the project, which includes:

- Purpose and scope of the project.
- Budget owner and asset holder.
- Conformity of the project to strategic documents and substantiation of the need thereof.
- Cost of the projects and implementation time frames.
- Project financing sources and expenditure coverage sources.
- Expenses to purchase the goods, works and services during implementation of the project.
- Other clauses.

2. Feasibility study, which includes:

- Marketing analysis and SWOT analysis.
- Economic performance indicators (for free-standing projects): net present value (NPV), internal rate of return (IRR), discounted payback period (DPP), profitability index (PI). The project is not recommended for financing if the NPV and IRR are less than zero.
- Economic effect indicators (for the social projects that will not be directly free-standing) expected net present val-

ue (ENPV), benefit and cost ratio (B/C, BRC).

- Social effects (accessibility of the services, conformity to the standards and rules, preservation and creation of new jobs), environmental consequences (volume of emissions, increase/decrease in environmental pollution).
- Budget performance indicator: annual budget proceeds and annual operational expenses.
- Estimated budget proceeds.
- Structure of the annual budget proceeds.
- Risk analysis.

3. Plan for implementation, financing and progress thereof, including:

- Organisational action plan with information on the scheduled start and end of the action as well as cost of the action and expected results.
- Extended project implementation plan as Gantt chart.
- HR support by the stages of the project life cycle.
- Annual allocation of expenses by the project stages.
- Expenses for operation of assets, before and after the project implementation.
- Production net cost of the goods on a yearly basis.

¹⁸⁷ <https://www.me.gov.ua/Documents/Download?id=ad5b6d90-ae34-4852-a72b-24a8670067ff>



DEVELOPMENT FINANCE ASSESSMENT: **UKRAINE**

ANALYTICAL REPORT