UNITED NATIONS UKRAINE

JOINT SDG FUND

Office on Sustainable Development Goals Implementation

UNDP

Analysis of sources and tools for attracting financial resources to finance the Sustainable Development Goals in Ukraine

EY
Building a better working world

This report was prepared as part of the implementation of the Joint Programme for Promoting Strategic Planning and Financing for Sustainable Development at the National and Regional Level in Ukraine together with the Sustainable Development Goals Office established with the financial support of the Governments of Sweden and Switzerland. The opinions, conclusions or recommendations expressed by the authors or editors of this report do not necessarily reflect the views of the Governments of Sweden and Switzerland and the United Nations Development Programme or other UN agencies.

TABLE OF CONTENT

List of abbreviations

Term	Explanations
GDP	Gross domestic product
WHO	World Health Organisation
GNI	Gross national income
SAEE	State Agency on Energy Efficiency and Energy Saving of Ukraine
Statistics Service	State Statistics Service of Ukraine
PPP	Public-private partnership
EBRD	European Bank for Reconstruction and Development
EU	European Union
INFF	Integrated National Financing Framework
Developing countries	The World Bank uses the following classification of countries by income based on the value of gross national income (GNI) per capita: • low-income countries • lower middle-income countries • upper middle-income countries • high-income countries The World Bank uses the term of "developing countries" for low- and middle-income countries.
Ministry of Economy	Ministry of Economy of Ukraine
NBU	National Bank of Ukraine
UN	United Nations
UNDP	United Nations Development Programme
DFI	Foreign direct investment
SDG	Sustainable Development Goals
UNICEF	United Nations International Children's Emergency Fund
ESG	Environmental, Social, and Governance sectors
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	German Agency for International Cooperation
KPI	Key performance indicators

Chapter 1.
Introduction: on the Sustainable Development Goals and the need to finance them

On the Sustainable Development Goals and Ukraine's commitment to achieve them

The Summit on Sustainable Development was held in the framework of the 70th session of the UN General Assembly in September 2015. Following it, the 2030 Agenda for Sustainable Development was adopted[1], which approved 17 Sustainable Development Goals and 169 tasks aimed to achieve them.

The Sustainable Development Goals are a call to action to be achieved by 2030 to overcome poverty, protect the planet and ensure peace and prosperity for all people on Earth. The 17 Sustainable Development Goals are interrelated, and achievement of results in one area affects the results in other areas. Therefore, development of each aspect has to balance social, economic and ecological (environmental) sustainability (*Figure 1.1*). At the same time, social sustainability is the main ultimate goal, economic sustainability is the means to achieve it, and ecological sustainability is a prerequisite in the concept of sustainable development.

Ukraine, as a permanent member of the UN, also joined the process of ensuring sustainable development and assumed the relevant commitments to achieve the 17 SDGs. In 2019, the President of Ukraine signed Decree No. 722/2019 dated 30 September 2019 "On the Sustainable Development Goals of Ukraine for the period until 2030"[2], which officially approved Ukraine's commitment to achieve the 17 SDGs at the national level. To ensure ongoing monitoring of the progress in implementation of these commitments, the Cabinet of Ministers of Ukraine approved Decree No. 686-p dated 21 August 2019 "Issues of collecting data for monitoring the implementation of the Sustainable Development Goals"[3].

In 2020, the Ministry of Economy published the first Sustainable Development Goals Voluntary National Review: Ukraine covering the issues of transformational changes in the society on the path to achieving the SDGs[4]. The State Statistics Service also prepares annual monitoring reports on achieving the SDGs[5], which are based on 183 indicators of the SDGs according to 86 tasks. In addition, the State Statistics Service publishes documents, reports and data on the assessment of progress in achieving the SDGs in Ukraine on its website[6].

[1] Official website of the United Nations, information on the 2030 Agenda for Sustainable Development, https://ЦCPs.un.org/2030agenda

[2] Available at: https://zakon.rada.gov.ua/laws/show/722/2019#Text

[3] Available at: https://zakon.rada.gov.ua/laws/show/686-2019-%D1%80#Text

[4] Ministry of Economy of Ukraine, Sustainable Development Goals Voluntary National Review: Ukrainehttps://me.gov.ua/Documents/List?lang=uk-UA&id=938d9df1-5e8d-48cc-a007-be5bc60123b8&tag=TSiliStalogoRozvitku

[5] State Statistics Service of Ukraine, Sustainable Development Goals Ukraine Monitoring Report, https://ukrstat.gov.ua/csr_prezent/2020/ukr/st_rozv/publ/publ.htm

[6] State Statistics Service of Ukraine, Sustainable Development Goals, https://ukrstat.gov.ua/csr_prezent/2020/ukr/st_rozv/menu.htm

Figure 1.1: The 17 Sustainable Development Goals in the context of three areas of sustainable development

On financing of the Sustainable Development Goals

Achieving the SDGs by 2030 needs material financial investment in the areas such as health care and education, environmental protection, infrastructure and energy, agriculture, peace and security, and climate action. Investment in sustainable development should have maximum effectiveness and, first of all, should be allocated to those communities and peoples who have the least progress in the area of sustainable development. There is a great need for financial resources to implement the 2030 Agenda for Sustainable Development, but countries have increasing opportunities to engage new and additional sources of financing, as well as to use a variety of innovative approaches to financing[7].

According to estimates of the UN Conference on Trade and Development, governments of all countries of the world should attract from 5 to 7 trillion US dollars annually to finance achieving the SDGs. The estimated annual investment needs for developing countries alone are 3.3 trillion to 4.5 trillion US dollars per year, and this is primarily needed to finance the development of basic infrastructure, health care and education, ensure food safety, mitigate climate change and adapt to it. The annual gap (deficit) in financing the sectors related to achieving the SDGs in developing countries is about 2.5 trillion US dollars[8].

[7] UNDP (2018). Financing the 2030 Agenda: An Introductory Guidebook for UNDP Country Offices, www.uncclearn.org/wp-content/uploads/library/financing_the_2030_agenda_co_guidebook.pdf

[8] UNCTAD (2014). World Investment Report 2014: Investing in the SDGs: An Action Plan. New York and Geneva: United Nations, https://unctad.org/webflyer/world-investment-report-2014

At the same time, the gross world product in 2020 amounted to 84.75 trillion US dollars[9], and global gross financial assets in 2020 amounted to EUR 200 trillion[10]. These are the available global resources a part of which can be used to finance sustainable development. The problem is that these resources are not allocated in the amounts needed and with the appropriate urgency to fulfil the obligations arising from the 2030 Agenda for Sustainable Development and the Paris Agreement[11].

Achieving the SDGs has economic benefits and creates new opportunities. In particular, it is estimated that achieving the SDGs in the whole world in four key economic systems alone (food and agriculture, cities, energy and materials, health care and well-being) could provide private sector with new market opportunities worth over 12 trillion US dollars annually by 2030. Moreover, it is estimated that achieving the SDGs will result in creation of 380 million new jobs by 2030[12]. Transition to low-carbon sustainable growth could generate economic benefits worth 26 trillion US dollars by 2030[13].

The traditional development cooperation is increasingly supplemented by new sources of financing and broader expertise, creating more opportunities for cooperation and attracting extra financing. Increasingly more countries become capable of allocating their domestic resources to development, receive more foreign direct investment, and are able to attract financing from domestic and international capital markets. New development partners, development financing institutions, public-private vertical funds, philanthropic organisations and private impact investors expand their activities and cooperate actively with the UN development agencies. At the same time, various and more mature forms of financing become available to the countries. Examples of such instruments include mixed public-private financing, green and blue bonds for financing environmentally safe infrastructure, lending to regional authorities, guarantee schemes, diaspora financing schemes, impact investment, crowdfunding, social development bonds, countercyclical loan agreements, weather and disaster insurance schemes, etc.[14]

While some developing countries are able to mobilize more domestic resources for development, attract private investment and experiment with innovative financial instruments, these opportunities are still unavailable for weaker economies. Less developed countries and fragile states have fewer financing options and remain dependent on traditional assistance provided by donors. At the same time, those countries which have new and various forms of development financing available face challenges of a good understanding of new and innovative instruments and related requirements, ways of using them as effectively as possible, and combining various financing sources and instruments.[15]

On financing of the SDGs in Ukraine

Russia's full-scale invasion in Ukraine and the war has caused immense human and economic losses for Ukraine: there has been a harsh decrease in production capacity, a forced relocation of human capital, an increase in the number of unemployed, and an increase in prices for energy and food. According to estimates of the NBU, the losses of physical capital caused by the destruction of enterprises, housing and infrastructure

[9] According to the World Bank, https://data.worldbank.org/indicator/Ny.Gdp.Mktp.Cd

[10] According to the Global Wealth Report 2021 by Allianz, https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/economic-research/publications/specials/en/2021/october/2021_10_07_Global-Wealth-Report.pdf

[11] United Nations Secretary-General (2019), Roadmap for Financing the 2030 Agenda forSustainable Development 2019-2021, https://www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/UN-SG-Roadmap-Financing-the-ЦCPs-July-2019.pdf

[12] Business & Sustainable Development Commission (2017). Better Business Better World, https://www.unglobalcompact.org/library/5051

[13] The Global Commission on the Economy and Climate (2018). Unlocking the inclusive growth story of the 21st century: accelerating climate action in urgent times, http://newclimateeconomy.report/2016/wp-content/uploads/sites/6/2019/04/NCE_2018Report_Full_FINAL.pdf

[14] UNDP (2018). Financing the 2030 Agenda: An Introductory Guidebook for UNDP Country Offices, https://www.undp.org/publications/financing-2030-agenda?utm_source=EN&utm_medium=GSR&utm_content=US_UNDP_PaidSearch_Brand_English&utm_campaign=CENTRAL&c_src=CENTRAL&c_src2=GSR&gclid=CjwKCAjwzeqVBhAoEiwAOrEmzUWBKd66f3_S0i_5Yo1jkdPg-jYuTldL0F2BHY3aFBiuW_JHDmpUIxoCbB4QAvD_BwE

[15] UNDP (2018). Financing the 2030 Agenda: An Introductory Guidebook for UNDP Country Offices, https://www.undp.org/publications/financing-2030-agenda?utm_source=EN&utm_medium=GSR&utm_content=US_UNDP_PaidSearch_Brand_English&utm_campaign=CENTRAL&c_src=CENTRAL&c_src2=GSR&gclid=CjwKCAjwzeqVBhAoEiwAOrEmzUWBKd66f3_S0i_5Yo1jkdPg-jYuTldL0F2BHY3aFBiuW_JHDmpUIxoCbB4QAvD_BwE

reached 100 billion US dollars as of early May 2022, which is the equivalent of 50% of Ukraine's GDP in 2021[16]. According to estimates of the Ministry of Economy of Ukraine and experts of the Kyiv School of Economics, the total losses of the Ukrainian economy caused by the war, both direct and indirect (reduction of GDP, suspension of investment, outflow of labour force, extra expenses for defence and social support, etc.) amounted to 564–600 billion US dollars (as of early June 2022)[17].

Development of any country goes hand in hand with rational use of available financial resources and search for new potential financing sources. This requires proper strategic planning and alignment of policies, strategies and plans in the country, which will make it possible to allocate financial resources for priority areas of development. The issue of strengthening Ukraine's ability to effectively use domestic resources and attract new financing sources is especially important in the context of great economic losses caused by the war.

In 2021, to promote improvement of financing of the SDGs in Ukraine, the United Nations Development Program (hereinafter the UNDP) in Ukraine, jointly with the World Health Organisation (WHO), the United Nations International Children's Emergency Fund (UNICEF) and the United Nations Economic Commission for Europe (UNECE) launched a comprehensive Joint Program "Promoting Strategic Planning and Financing for Sustainable Development on National and Regional Level in Ukraine"[18]. The Joint Program includes implementations of comprehensive measures to support the Government of Ukraine in order to develop joint approaches to managing financial flows and implementing the reforms related to financing of the 2030 Agenda for Sustainable Development.

In the Addis Ababa Action Agenda, UN member states introduced the concept of integrated national financing frameworks to help countries better align their financial policies with long-term development strategies and plans. In 2019, UN experts proposed national governments to implement this special tool, the Integrated National Financing Framework (INSF), to support implementation of national development strategies and create an effective framework for implementing the SDGs in their countries[19]. It is the internal incentive of the state that should be the basis for sustainable development financing. In this context, the INSF will help provide the basis for aligned financial policy and allocation of resources to achieve national development priorities. In March 2021, the Interdepartmental Working Group on the Integrated National Framework for SDG Financing was established in Ukraine, which would assess financing in the development area and determine priorities for achieving the SDGs at the national and regional levels, optimize allocation of resources, implement and effectively use new arrangements for financing the SDGs[20].

As part of the implementation of the UN Joint Programme for Promoting Strategic Planning and Financing for Sustainable Development at the National and Regional Level in Ukraine, the UNDP Ukraine team conducted a research to assess development financing in Ukraine aimed at analysing the major sources of financing and their focus on the SDGs[21]. The research included an expert comparison of various financing flows with the SDGs affected by them. For example, the UNDP expert assessment found out that the largest amount of expenditures from the consolidated budget of Ukraine corresponds to SDG No. 16 "Peace, justice and strong institutions", including expenditures on security and defence (*Figure 1.2*). At the same time, public funding hardly covers certain goals, such as SDG No. 13 "Climate action".

[16] National Bank of Ukraine (2022). Report on financial stability, https://bank.gov.ua/admin_uploads/article/FSR_2022-H1.pdf?v=4

[17] According to the Kyiv School of Economics, https://kse.ua/ua/about-the-school/news/za-ostannimi-obrahunkami-zagalna-suma-pryamih-zbitkiv-infrastrukturi-stanovit-103-9-mlrd/

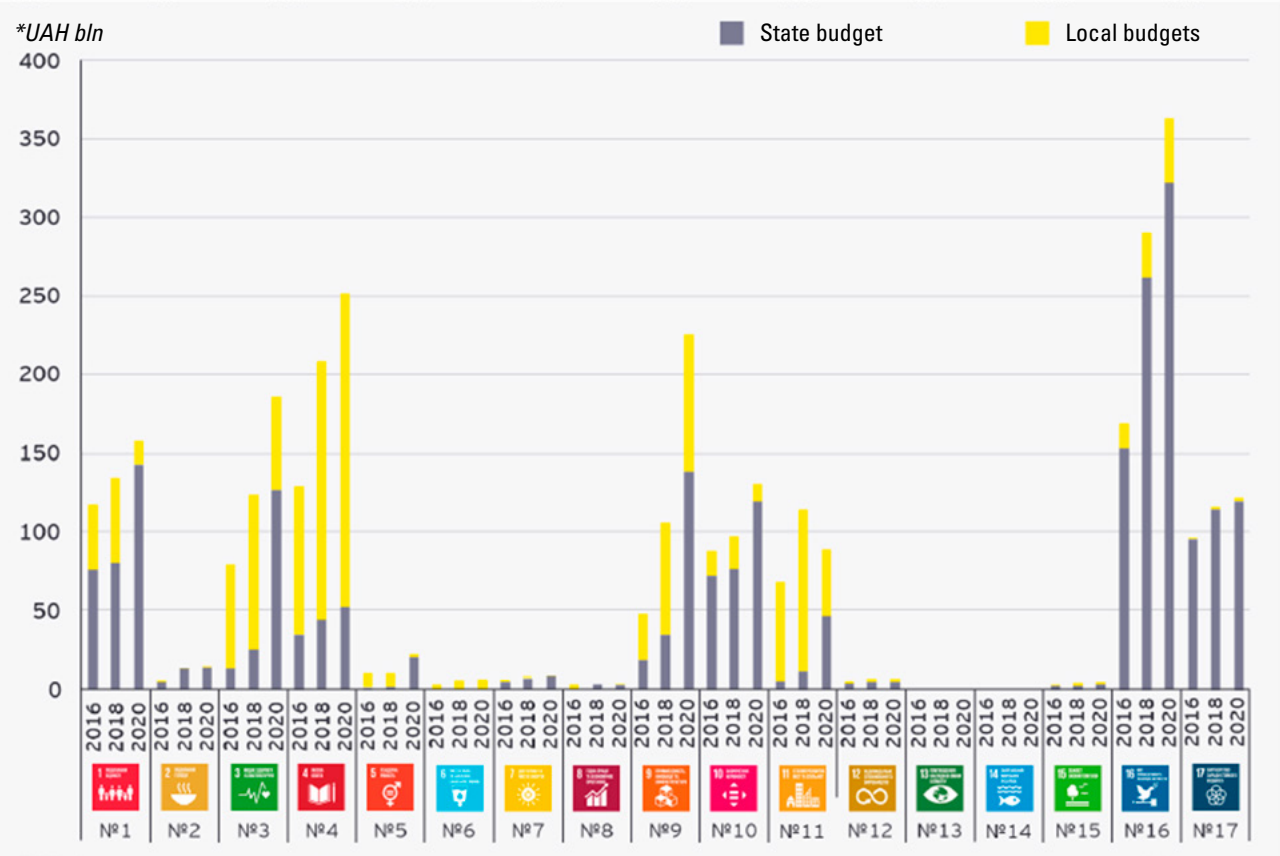
[18] Information on the Joint Program "Promoting Strategic Planning and Financing for Sustainable Development on National and Regional Level in Ukraine", https://www.jointsdgfund.org/sites/default/files/2020-10/Brief%20SDG%20Financing_ukr.pdf

[19] United Nations, Inter-agency Task Force on Financing for Development (2019). Financing for Sustainable Development Report 2019, https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR2019_ChptII.pdf

[20] First meeting of the Interdepartmental Working Group on the Integrated National Framework for SDG Financing, https://polinfo.gov.ua/7622-vidbulosia-pershe-zasidannia-mizhvidomchoi-robochoi-hrupy-z-pytan-intehrovanoi-natsionalnoi-systemy-finansuvannia-tsilei-staloho-rozvytku

[21] UNDP (2022). Development Financing Assessment: Ukraine.

Figure 1.2: Comparison of state and local budget expenditures by the Sustainable Development Goals (UNDP Ukraine expert assessment)[22]



General results of the UNDP Ukraine research (*Table 1.1*) point out which funding sources are allocated to each SDG and which SDGs are not financed sufficiently.

Table 1.1: Results of the assessment of financing the SDGs in Ukraine by financing sources (according to the UNDP Ukraine expert assessment)

Goal No. 1 No poverty	• State budget • Local budgets • Financing from international financial institutions
Goal No. 2 Zero hunger, development of agriculture	• Private investment • State budget
Goal No. 3 Good health and well-being	• Local budgets • Financing from international financial institutions • Investment by municipal non-profit enterprises
Goal No. 4 Quality education	• State budget • Local budgets • Private investment
Goal No. 5 Gender equality	• International technical assistance • State budget
Goal No. 6 Clean water and sanitation	• Investment by municipal enterprises • Private investment (public-private partnership) • Financing from international financial institutions

[22] Source: data from the UNDP publication "Assessment of Development Financing: Ukraine" (2022) – expert assessment based on data of the State Treasury Service of Ukraine

Goal No. 7 Affordable and clean energy	• Private investment • Financing from international financial institutions • State budget • State enterprises
Goal No. 8 Decent work and economic growth	• Private investment
Goal No. 9 Industry, innovation and infrastructure	• Private investment • State budget, including the State Fund for Regional Development and the Road Fund • Financing from international financial institutions
Goal No. 10 Reduced inequalities	• State budget Local budgets
Goal No. 11 Sustainable cities and communities	• State budget, including the State Fund for Regional Development and the Road Fund • Local budgets • International technical assistance
Goal No. 12 Responsible consumption and production	• Private investment • Financing from international financial institutions • Investment by municipal enterprises
Goal No. 13 Climate action	At present, there is lack of financing. Potential financing source: • State budget • Financing from international financial institutions • Private investment • Need for international technical assistance
Goal No. 14 Life below water	At present, there is lack of financing. Potential financing source: • State budget • Financing from international financial institutions • Private investment • Need for international technical assistance
Goal No. 15 Life on land	At present, there is lack of financing. Potential financing source: • State budget • Financing from international financial institutions • Private investment • Need for international technical assistance
Goal No. 16 Peace, justice and strong institutions	• State budget and international defence budgets • Local budgets • International technical assistance
Goal No. 17 Partnerships for the goals	• Public loans • Local borrowing • Private investment (public-private partnership)

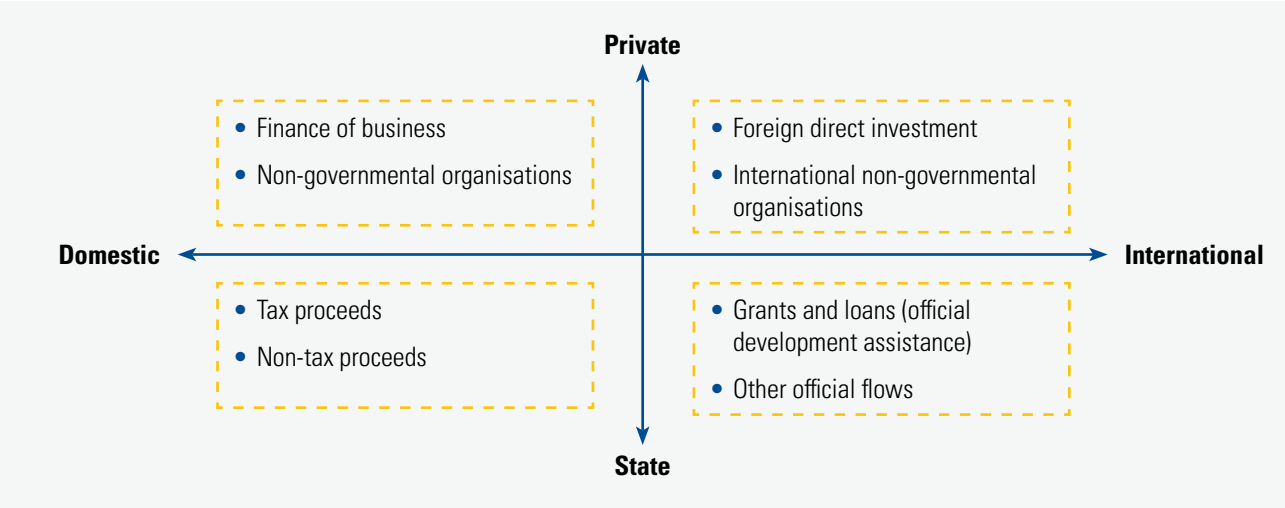
About this document

The purpose of this research was to analyse the main sources of funding, as well as tools for attracting financial resources that can be used to achieve the Sustainable Development Goals in Ukraine. This document describes the content, world practice and relevance to Ukrainian context, advantages and obstacles of using development financing sources (***Section 2***) and tools (***Section 3***). The analysis includes the most common globally financing sources and tools that are or can be used in Ukraine. Based on the analysis, ***Section 4*** of this document presents main recommendations for representatives of the Government of Ukraine in respect of attracting various types and forms of development financing, as well as main conclusions based on the analysis results.

Chapter 2.
Analysis of financing sources

In recent years, developing countries have significantly expanded their opportunities to attract financing from a number of public and private, domestic and international sources. Examples of such sources that can be used to achieve the development priorities are given below.

Figure 2.1: Financing sources in the context of achieving the Sustainable Development Goals



Global world practice demonstrates that domestic public resources are the most common and important source of SDG financing. Experts of the World Bank note that a great share (50 to 80%) of the finances necessary to finance the SDGs has to be mobilized at the expense of domestic public resources[23]. However, the progress in mobilizing domestic public resources to finance development is still insufficient. This gives rise to a significant need to mobilize domestic resources and increase the effectiveness of their use. In addition, one of the UNDP researches[24] notes that many countries show a trend of gradually increasing numbers of labour force with average level of income that are able to make a major contribution to national tax proceeds (the so-called demographic dividend). In turn, high domestic proceeds will reduce dependence on external donations and increase creditworthiness of countries in terms of private and international public loans.

At the same time, developing countries in general are increasingly using private sources to finance sustainable development and the SDGs. In particular, foreign direct investment (FDI) is the major source of external cash flows for developing countries. The UNDP also notes a trend in developing countries to simplify legislation related to FDI, as well as to introduce other incentives, such as tax incentives for such investment[25]. In 2019, low- and middle-income countries (jointly called developing

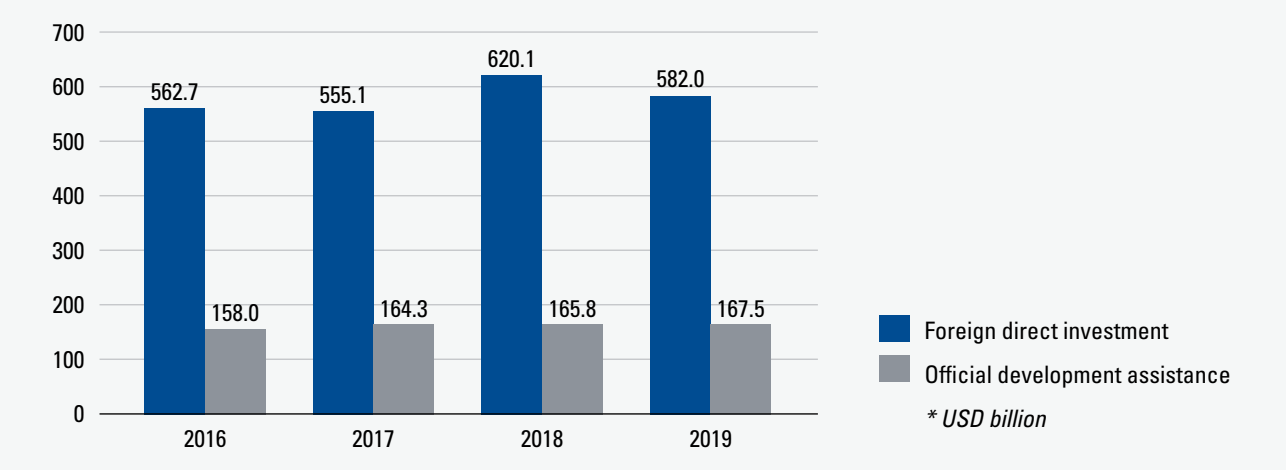
[23] World Bank, Financing for Development, https://olc.worldbank.org/content/financing-development

[24] UNDP (2018). Financing the 2030 Agenda: An Introductory Guidebook for UNDP Country Offices, https://www.uncclearn.org/wp-content/uploads/library/financing_the_2030_agenda_co_guidebook.pdf

[25] UNDP (2018). Financing the 2030 Agenda: An Introductory Guidebook for UNDP Country Offices, https://www.uncclearn.org/wp-content/uploads/library/financing_the_2030_agenda_co_guidebook.pdf

countries) attracted FDI worth over 581 billion US dollars and, to compare, only 167 billion US dollars as official development assistance (ODA)[26] (*Figure 2.2*).

Figure 2.2: Flows of foreign direct investment (FDI) and official development assistance (ODA) to low- and middle-income countries, 2016–2019[27]



Issuance of bonds and loans from commercial bank also increased more than 11 times in the period from 2016 to 2021 (*Figure 2.3*). Issuance of this type of bonds for developing countries provides an opportunity to allocate resources for sustainable development, simultaneously contributing to the growth of the country's economy and developing debt capital markets.

Many developing countries have also expanded their internal debt markets, and in some cases, sub-government debt markets. This allows countries to get resources for financing sustainable development quickly and in sufficient amounts. Internal debt markets have contributed to the development of local financial markets and mobilization of domestic savings to finance public expenditures. Internal debt also reduces currency risks and can help reduce dependence on foreign assistance. Both domestic and international bond financing is expected to expand as a key source of development financing in the future[28].

In recent years, the principles of responsible business have become increasingly relevant. There has been an increased interest and use of environmental, social and governance (ESG) factors by international investors. Various types of ESG reporting are becoming more and more common among companies all over the world. These trends can influence the allocation of more private financing for sustainable development in the medium and long term.

Charitable foundations and international organisations are increasingly cooperating with international financial organisations in the area of sustainable development, receiving financing from both governments and private sector represented by philanthropists and businesses. At the same time, small national foundations often also play an important role in national and local sustainable development efforts by implementing local projects of social importance.

International flows of state (public) financing have also increased, although not as much as private ones. The total amount of official development assistance (ODA) in the world reached about 167.8 billion US dollars in 2019 as compared with 146.7 billion US dollars in 2015[29]. Currently, one of the largest sustainable development initiatives sponsored by a foreign state is China's Belt and Road Initiative.

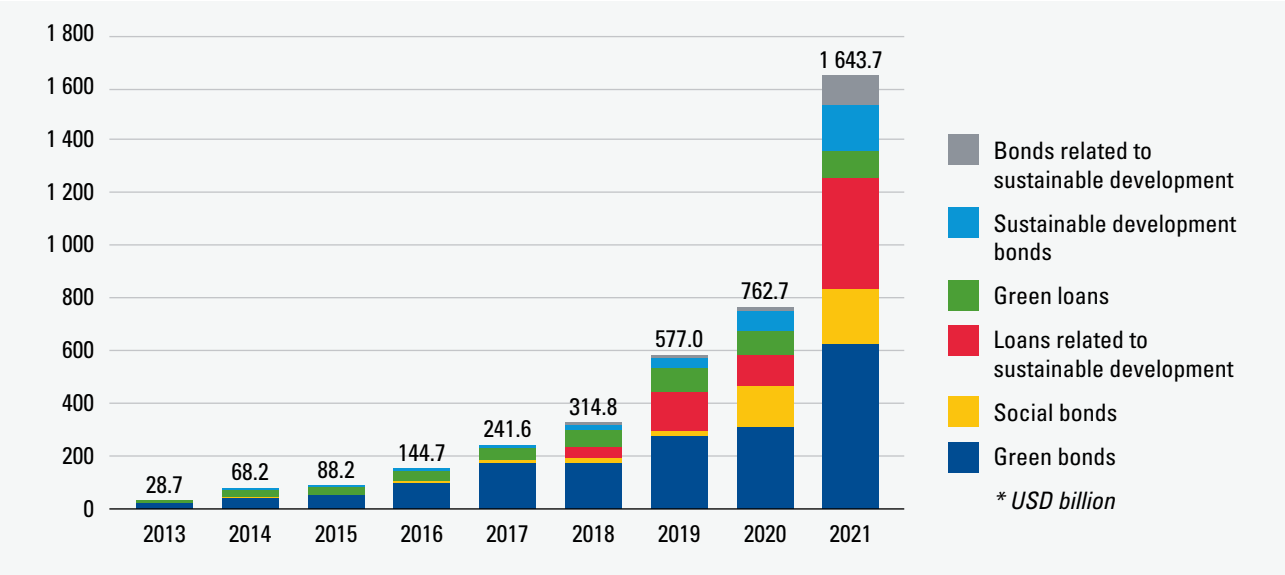
[26] Source: data of the World Bank, https://databank.worldbank.org/metadataglossary/world-development-indicators/series

[27] Source: data of the World Bank, https://databank.worldbank.org/metadataglossary/world-development-indicators/series

[28] UNDP (2018). Financing the 2030 Agenda: An Introductory Guidebook for UNDP Country Offices, https://www.uncclearn.org/wp-content/uploads/library/financing_the_2030_agenda_co_guidebook.pdf

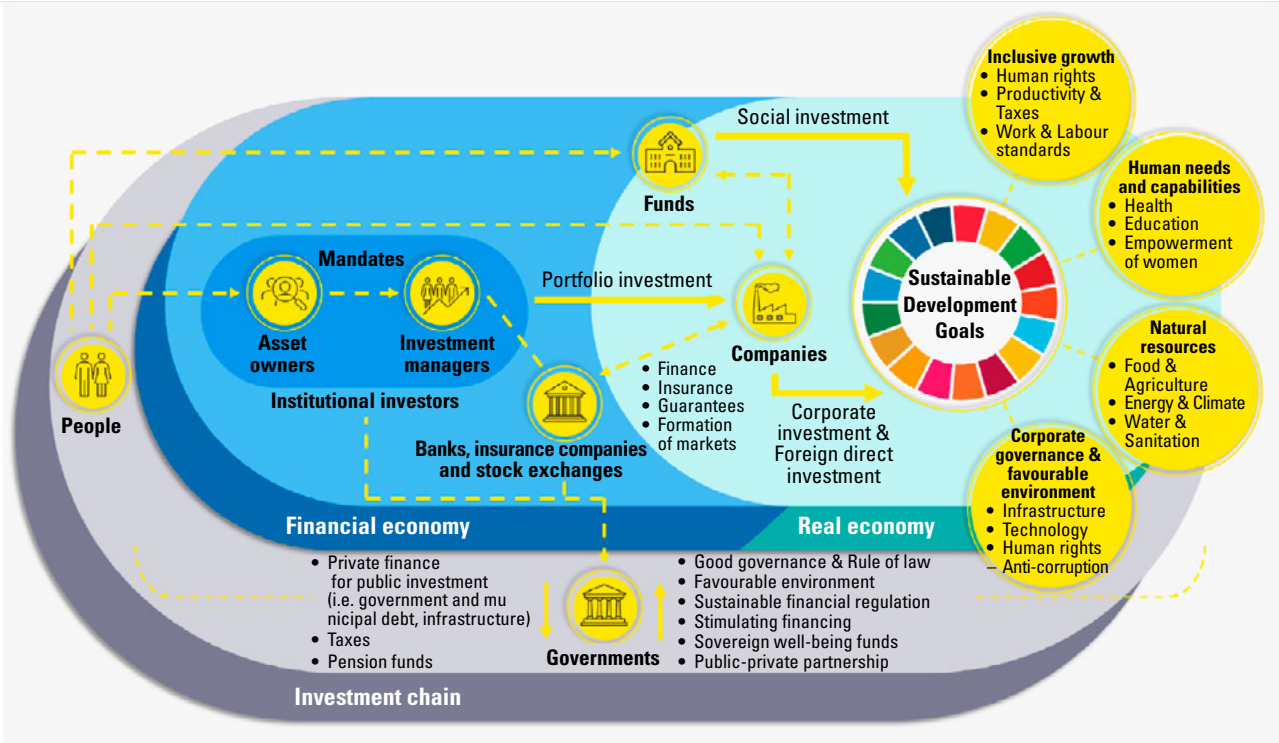
[29] Source: data of the World Bank, https://databank.worldbank.org/metadataglossary/world-development-indicators/series

Figure 2.3: Annual issue of debt obligations related to sustainable development in 2013–2021[30]



Thus, despite the fact that the ability of countries to ensure their development at the expense of domestic resources remains the most important factor, the sources of financial flows that can be allocated to SDGs are becoming more diverse. Moreover, the development financing framework is transformed towards a shift of leverage from assistance for development and international flows of state (public) financing and attainment of significance by various sources of capital accumulation, primarily at the expense of private investment (*Figure 2.4*).

Figure 2.4: Schematic representation of the investment chain for financing of the Sustainable Development Goals[31]



[30] Source: according to Sustainable Debt Issuance Breezed Past $1.6 Trillion in 2021 by BloombergNEF, https://about.bnef.com/blog/sustainable-debt-issuance-breezed-past-1-6-trillion-in-2021/ - BloombergNEF and Bloomberg L.P.

[31] Source: information from the UN Global Compact's "Financial Innovation for the SDGs"https://www.unglobalcompact.org/take-action/action-platforms/financial-innovation

2.1 Domestic public financing sources

Domestic public resources under the direct control of the government play the most important role in financing of the sustainable development of each country. Revenues of the consolidated budget of Ukraine are formed from revenues of the state and local budgets in the form of taxes and non-tax payments. At the same time, the consolidated budget is mostly filled by tax payments – 87.46% of all revenues to the consolidated budget in 2021 (*Figure 2.6*) The traditional main source of revenues of the state budget of Ukraine is the value-added tax (VAT), while local budgets are filled due to the individual income tax (IIT).

Even despite a nominal increase in revenues to the consolidated budget, there are significant losses in potential revenues due to the large share of shadow economy in Ukraine. According to the State Tax Service of Ukraine, Ukraine's losses from tax evasion (mitigation) schemes make approximately 7.7 billion US dollars per year[32].

Figure 2.5: Indicators of fulfilment of the consolidated budget of Ukraine by income and expenditure in 2017–2021[33]

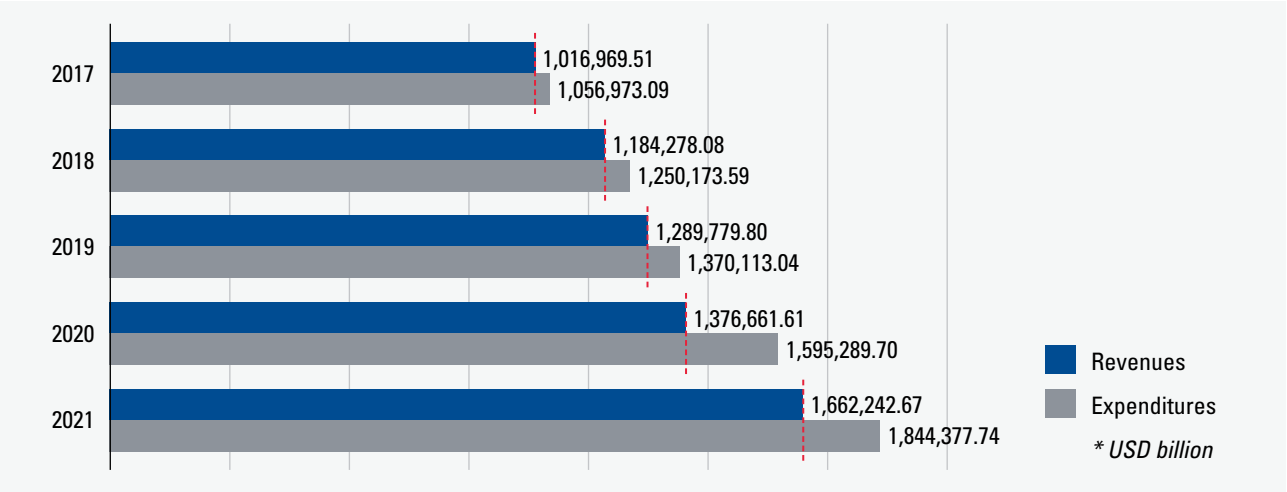
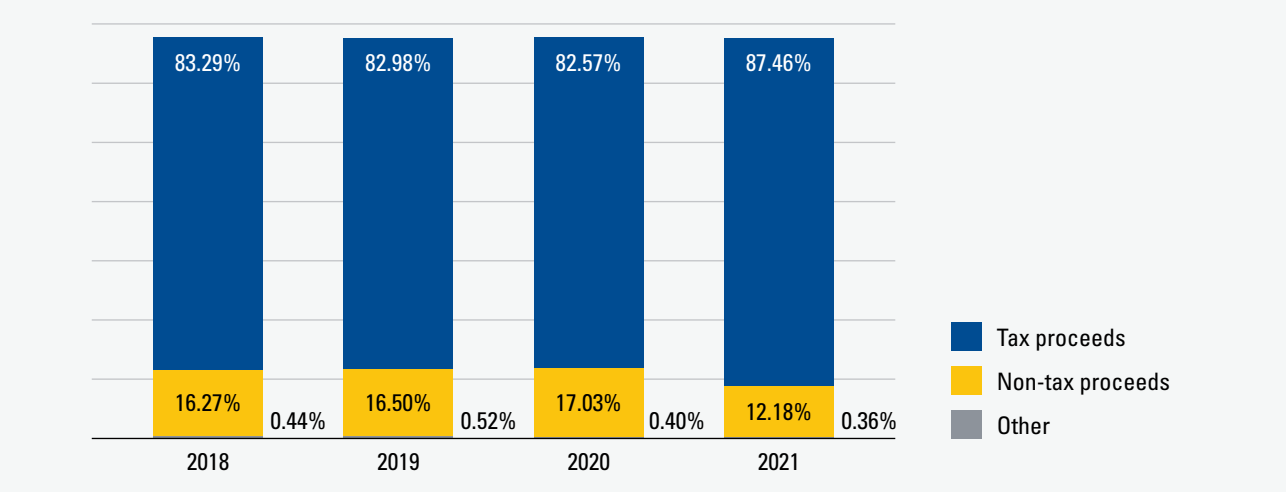


Figure 2.6: Revenues of the consolidated budget of Ukraine by type of revenues, 2018–2021[34]



[32] Information on the official website of the Government Portal, https://www.kmu.gov.ua/news/oleksij-lyubchenko-2020-rik-stav-rokom-vidchutnogo-progresu-v-efektivnosti-roboti-novoyi-derzhavnoyi-podatkovoyi-sluzhbi-ukrayinihttps://zn.ua/ukr/macrolevel/podatkovi-problemi-zri-v-korin.html

[33] Source: Data on the OpenBudget portal, https://openbudget.gov.ua/?month=12&year=2021&budgetType=CONSOLIDATED

[34] Source: Data on the OpenBudget portal, https://openbudget.gov.ua/?month=12&year=2021&budgetType=CONSOLIDATED

Tax proceeds

Tax revenues are an important source of SDG financing, as national governments have the ability to manage the effective mobilization and allocation of national resources. According to the World Bank, the total tax revenues equal to 15% of the country's gross domestic product (GDP) are an important factor in the country's ability to ensure sustainable economic growth and poverty reduction. This 15% threshold is critical for any country seeking to provide basic services to its citizens[35]. In almost 30 of the 75 poorest countries in the world, tax-to-GDP ratio is less than 15% (according to 2018 data)[36]. For comparison, the average tax-to-GDP ration in the countries of the Organisation for Economic Cooperation and Development (OECD) was 33.4% in 2019[37].

That is why the Addis Ababa Action Agenda adopted in 2015 at the Third International Conference on Financing for Development called on the countries to intensify their efforts to mobilize their domestic resources more effectively to finance the achievement of the Sustainable Development Goals[38]:

> *For all countries, public policies and the mobilization and effective use of domestic resources, underscored by the principle of national ownership, are central to our common pursuit of sustainable development, including achieving the sustainable development goals. ... We recognize that domestic resources are first and foremost generated by economic growth, supported by an enabling environment at all levels."*

Effective tax systems both generate resources and help to strengthen citizens' trust in the government and contribute to the prosperity of the society under the condition of quality public services and accountability of the state to the public. Tax structures also affect the society and economy in many other ways, including through their impact on investment and growth, environmental protection (e.g. carbon tax), extraction of natural resource and other topics relevant to achieving the SDGs[39].

At the same time, achieving the SDGs requires a significant increase in development financing all around the world, since external donor financing has never been sufficient to meet the SDG financing needs[40]. As a developing country, Ukraine has huge needs for the development of infrastructure, social protection of citizens and improvement of public services quality, especially taking into account great infrastructural losses caused by the Russian full-scale invasion into Ukraine, further restoration of which is estimated by the government of Ukraine to require more than 750 billion US dollars[41]. In addition, expenditures of the consolidated budget of Ukraine exceed its revenues (*Figure 2.5*). Lack of public funding in Ukraine is most noticeable in key social areas (SDGs No. 2, 5, 6, 7) and environmental protection and climate change areas (SDGs No. 12, 13, 14, 15)[42]. World publications state the following reasons for the lack of tax resources in countries[43]:

- The structure of the economy: presence of significant share of shadow economy complicates tax administration.
- Dependence on assistance: external inflows of funds into the country result in less action by the government to increase taxation in the country.

[35] Making taxes work for the SDGs (2018), https://blogs.worldbank.org/governance/making-taxes-work-sdgs

[36] Making taxes work for the SDGs (2018), https://blogs.worldbank.org/governance/making-taxes-work-sdgs

[37] OECD (2021), Revenue Statistics 2021: The Initial Impact of COVID-19 on OECD Tax Revenues, https://www.oecd.org/tax/revenue-statistics-2522770x.htm

[38] Addis Ababa Action Agenda of the Third International Conference on Financing for Development, A/RES/69/313, https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/69/313&Lang=E

[39] Making taxes work for the SDGs (2018), https://blogs.worldbank.org/governance/making-taxes-work-sdgs

[40] Cathal Long and Mark Miller (2017). Taxation and the Sustainable Development Goals: Do good things come to those who tax more?, https://euagenda.eu/upload/publications/untitled-91179-ea.pdf

[41] Official website of Recovery of Ukraine, https://recovery.gov.ua/

[42] Source: data from the UNDP publication "Assessment of Development Financing: Ukraine" (2022) – expert assessment based on data of the State Treasury Service of Ukraine

[43] Cathal Long and Mark Miller (2017). Taxation and the Sustainable Development Goals: Do good things come to those who tax more?, https://euagenda.eu/upload/publications/untitled-91179-ea.pdf

- Lack of government action: despite the trend toward formalization of the economy, increase in income does not mechanically result in higher taxes without certain targeted government action to modernize the tax system and create incentives for transition to formal (official) economy.

It should be noted separately that an important factor is the way the financing is allocated and used, in other words, whether there is a correlation between the tax increase and a corresponding increase in social expenditures. A USAID research shows that a 10% increase in taxes results in a 17% increase in public expenditures on health care in low-income countries, 4% increase in lower middle-income countries, and 3% increase in upper middle-income countries[44]. A similar correlation is observed between non-resource taxation and expenditures in other areas, such as health care, education and social protection. In contrast, a tax increase does not have such effect on such areas as agriculture and defence[45]. In general, such trends are quite natural, since mobilization of the country's domestic resources through taxes and increase in state budget revenues allow the government to increase financing for various areas of life of the people.

On the other hand, despite the fact that there is a tendency to increase the level of tax collection in developed countries[46], the reforms to increase tax burden may not necessarily be an effective and necessary solution in a particular country at a particular point in time. SDG No. 8 "Decent work and economic growth" includes promotion of private sector investment. At the same time, the Addis Ababa Action Agenda points to the fact that "private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation"[47]. Thus, increasing the tax burden, especially in poor or developing countries, may be counter-productive to creating a favourable environment for investment and economic growth, and may also be contrary to some elements of the SDGs, namely task 8.6[48] within SDG No. 8 "create institutional and financial capacity for self-fulfilment of potential of the economically active part of the population and development of the creative economy"[49].

As said above in this section, the World Bank states that it is extremely important to achieve 15% of tax-to-GDP ratio for sustainable economic growth and poverty reduction[50]. Since 2005, the tax revenues in Ukraine have been more than 15% of the country's GDP[51], and this indicator was 26.6% as of the end of 2021[52]. This fact shows that, despite the higher ratio of tax revenue to GDP, economic growth and achievement of the SDGs largely depend on how this money is allocated and used.

Thus, in the world in general, a tax increase is really associated with an increase in social expenditures and more effective and transparent public administration, which definitely contributes to achievement of the SDG objectives. However, a thoughtless tax increase has negative effect on the economic climate in the countries. Correlations between government tax revenues and SDG financing are complex and, as recorded in the Addis Ababa Action Agenda, "domestic resources are first and foremost generated by economic growth, supported by an enabling environment at all levels"[53]. Development of such enabling environment should take into account management mechanisms related to effectiveness of current expenditures and sufficiency of available resources[54].

[44] Tamarappoo, R., Pokhrel, P., Raman, M. and Francis, J. (2016). Analysis of the Linkage Between Domestic Revenue Mobilisation and Social Sector Spending, https://pdf.usaid.gov/pdf_docs/PBAAE640.pdf

[45] https://euagenda.eu/upload/publications/untitled-91179-ea.pdf

[46] OECD (2021), Revenue Statistics 2021: The Initial Impact of COVID-19 on OECD Tax Revenues, https://www.oecd.org/tax/revenue-statistics-2522770x.htm

[47] Addis Ababa Action Agenda of the Third International Conference on Financing for Development, A/RES/69/313, https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/69/313&Lang=E

[48] State Statistics Service, Information support for monitoring of the SDGs, metadata, https://ukrstat.gov.ua/csr_prezent/2020/ukr/st_rozv/metadata/08/08.htm

[49] Cathal Long and Mark Miller (2017). Taxation and the Sustainable Development Goals: Do good things come to those who tax more?, https://euagenda.eu/upload/publications/untitled-91179-ea.pdf

[50] Getting to 15 percent: addressing the largest tax gaps, https://blogs.worldbank.org/governance/getting-15-percent-addressing-largest-tax-gaps

[51] Data of the World Bank, https://blogs.worldbank.org/governance/getting-15-percent-addressing-largest-tax-gaps

[52] Calculated on the basis of data on the OpenBudget portal (https://openbudget.gov.ua/?month=12&year=2021&budgetType=CONSOLIDATED) and data of the State Statistics Service (https://ukrstat.gov.ua/druk/publicat/kat_u/2022/zb/05/Zb_VVP_kv_2021.pdf)

[53] https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf

[54] Source: Data on the OpenBudget portal, https://openbudget.gov.ua/?month=12&year=2021&budgetType=CONSOLIDATED

SWOT: tax proceeds

Strengths:

- Tax revenues are the primary and most stable source of SDG financing directly controlled and managed by the government. Thus, there is a possibility to plan expenditures for sustainable development in the long term.
- Taxes contribute to mobilization of domestic resources with subsequent possibility of their efficient allocation. In global practice, it is domestic resources that are considered the main source of financing for development. And the government, which directly controls budget revenues, can facilitate efficient reallocation of finances to national development priorities.
- The World Bank states that tax revenues equal to 15% of the country's GDP are critical for sustainable economic growth and social development. By this indicator, Ukraine exceeds the critical level of 15%, and reached ~26% in 2021. In this context, Ukraine can be considered to have a sufficient amount of tax resources at its disposal that can be effectively allocated to finance the SDGs.

Weaknesses:

- Despite the relatively high value of the tax-to-GDP ratio in Ukraine, there is lack of resources to finance social and environmental areas that directly contribute to progress in achieving the SDGs. This may speak for ineffective management of tax revenues and their allocation.
- Due to Russia's war against Ukraine, Ukraine has a great need for financing for restoration of infrastructure, business environment, social protection, etc. The economic consequences of Russia's war against Ukraine will thus require many times more effort to finance the same level of progress in fulfilling the commitments related to the SDGs.

Opportunities:

- One of the ways to increase tax proceeds is to deshadow part of Ukraine's economy. This will make it possible to obtain additional resources that can be allocated for SDG financing, and will increase the economic effectiveness in the country in general.
- In the context of SDG financings, one of the areas of work of the governments is to ensure more effective reallocation of already available tax revenues. This way, countries can contribute to overall improvement in planning, control and effective use of government tax revenues, as well as greater transparency and accountability of the government actions.
- Based on world experience, an increase in the tax burden results in certain increase in public expenditures on socially important areas, such as health care, education, social protection, both in high- and low-income countries. Therefore, the option of increased taxation can have effect for greater financing of certain areas of sustainable development.

Threats:

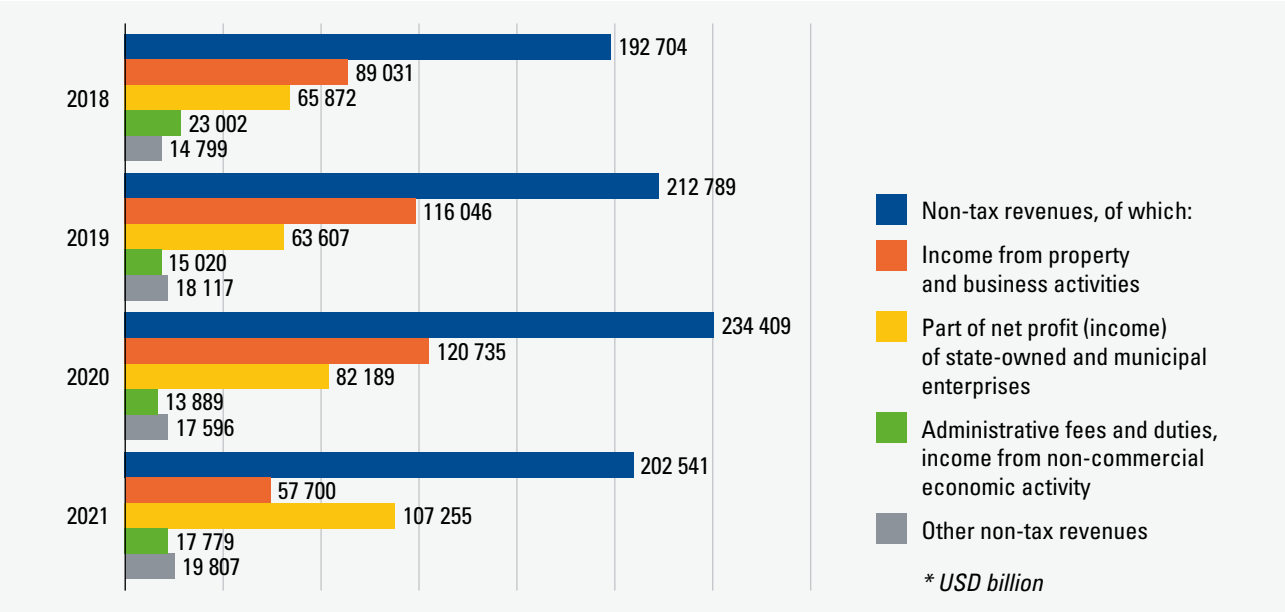
- The option of increased taxation, especially in developing or low-income countries, has negative impact on the investment climate. Therefore, although the state has more domestic resources available, this solution may result in reduction of SDG financing from private sources, and have negative consequences for economic development.

Non-tax proceeds

Non-tax revenue instruments are much more diverse than taxation instruments. Non-tax revenues in various countries of the world include dividends on public investment in state-owned enterprises and share portfolios, sovereign funds and government shares in joint ventures with private operators, as well as many other fees and duties related to public operations. Non-tax revenue is an important but often underused source of public revenue, although it would be appropriate in the countries facing reduced official development assistance, increase in debt, limited capacity to mobilize domestic resources, and other public governance issues. The structure and sources of non-tax revenues differ in different countries, primarily depending on their desire to diversify non-tax revenue sources, economic context, and national development goals[55].

In 2021, non-tax revenues to the consolidated budget of Ukraine amounted to UAH 202.54 billion[56], which made 3.7% of GDP[57]. Of all non-tax revenues, 53% accounted for own revenues of budgetary institutions.

Figure 2.7: Non-tax revenues to the consolidated budget of Ukraine, 2018–2021[58]



According to the European Commission[59], non-tax revenues slightly exceeded 5% of GDP in the EU in general in 2014. Potentially, non-tax revenues can become a much larger source of income in Ukraine. Their diversity opens up opportunities both for increasing state revenues and for achieving other development goals. For example, countries can introduce taxes on production and consumption of products causing great damage to the environment, and use the generated revenue to reduce environmental degradation or mitigate harmful effects[60].

Non-tax revenues can also facilitate inclusive decentralization by allowing local governments to collect and use non-tax revenues for their own development. However, gradual increase in non-tax revenues potentially results in negative consequences. With a rapid growth of non-tax revenues, activities of local self-government

[55] United Nations. Economic Commission for Africa (2019). Economic Report on Africa 2019: fiscal policy for financing sustainable development in Africa, https://www.uneca.org/sites/default/files/chapterimages/era2019_eng_Chapter_4.pdf

[56] Source: Data on the OpenBudget portal https://openbudget.gov.ua/?month=12&year=2021&budgetType=CONSOLIDATED

[57] Calculated on the basis of data on the OpenBudget portal, https://ukrstat.gov.ua/druk/publicat/kat_u/2022/zb/05/Zb_VVP_kv_2021.pdf

[58] Source: Data on the OpenBudget portal https://openbudget.gov.ua/?month=12&year=2021&budgetType=CONSOLIDATED

[59] Mourre, G., Reut, A. (2017). Non-tax revenue in the European Union: a source of fiscal risk?, https://ec.europa.eu/info/sites/default/files/dp044_en.pdf

[60] United Nations. Economic Commission for Africa (2019). Economic Report on Africa 2019: fiscal policy for financing sustainable development in Africa, https://www.uneca.org/sites/default/files/chapterimages/era2019_eng_Chapter_4.pdf

authorities become less planned. If non-tax revenues increase and become irregular, it can result in ineffective governance and give rise to corruption risks[61].

Countries with effective governance base their activities on collection of public revenues being guided by full transparency. This includes transparency in explaining the reasons for collecting certain types of payments, monitoring and budget reporting. Therefore, there should be a strong political will to improve the effectiveness of fiscal bodies. In turn, consistent development of institutions lays the foundation for more effective administration and distribution of non-tax revenues in the long run[62].

SWOT: Non-tax proceeds

Strengths:

- Diversity of sources: non-tax revenues can be collected from many various transactions and activities unrelated to each other.
- Diversity of instruments and sources for collecting such revenues makes it possible to adapt collection mechanisms depending on the country's economic and political context and national development goals.

Weaknesses:

- In Ukraine, non-tax revenues are insignificant and amount to only 3.7% of GDP (in 2021), while statistics of developed countries shows a somewhat higher level of revenues.

Opportunities:

- Due to diversity of revenue sources, non-tax revenues of the state may increase in the future, provided that the state authorities create additional collection instruments with effective monitoring and reporting framework.
- A significant part of non-tax revenues is formed with payments by enterprises of the state sector of the economy. An effective and transparent management of such enterprises, which are primarily concentrated in the resource and/or infrastructure sectors, will allow, other things being equal, to achieve higher financial results and, consequently, to form additional SDG financing source. Thus, a clear mechanism for allocation of additional government revenues from management of public sector to sustainable development can be provided.

Threats:

- Constant expansion of types of non-tax fees and duties and their rates may negatively affect the effectiveness of governance of local authorities and give rise to corruption risks.

[61] United Nations. Economic Commission for Africa (2019). Economic Report on Africa 2019: fiscal policy for financing sustainable development in Africa, https://www.uneca.org/sites/default/files/chapterimages/era2019_eng_Chapter_4.pdf

[62] United Nations. Economic Commission for Africa (2019). Economic Report on Africa 2019: fiscal policy for financing sustainable development in Africa, https://www.uneca.org/sites/default/files/chapterimages/era2019_eng_Chapter_4.pdf

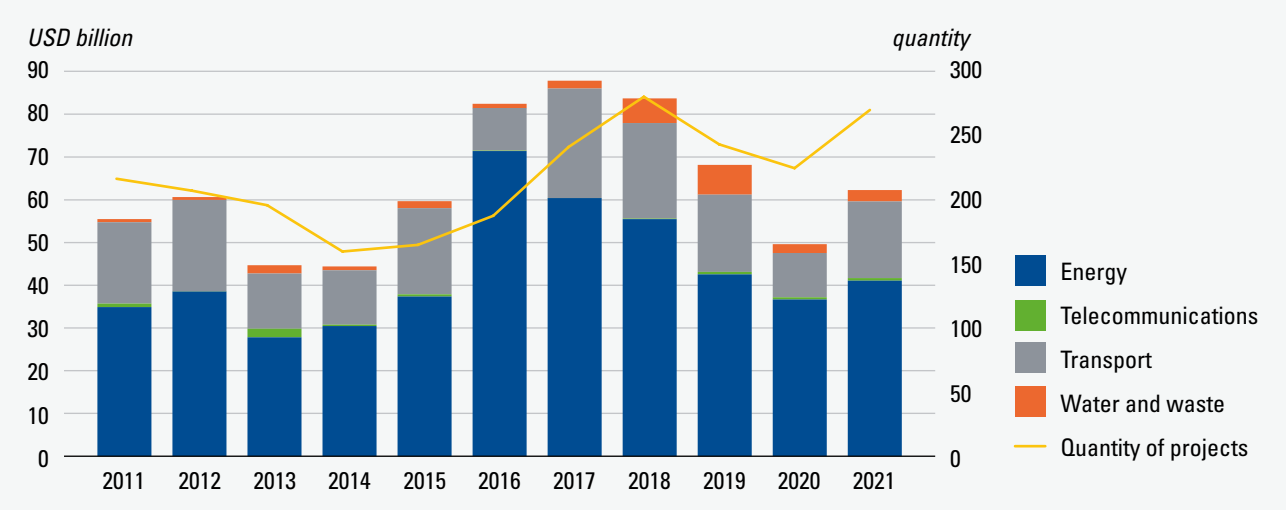
2.2 Internal private financing sources

Finance of business

Although domestic public resources are the main source of SDG financing, countries increasingly need to finance a sustainable future through private investment, particularly investment in production capacity and infrastructure. Globally, investment of private companies resumed its upward trend in 2021 as compared to 2020. The COVID-19 pandemic changed the investment structure to some extent and shifted the focus to sustainability of global value chains, wider range of risks in decision-making in private sector, and increased use of digital technologies. Additionally, climate change also affects some sectors such as energy and agriculture[63].

Despite resumption of the global investment growth, private infrastructure investment in developing countries still remains below pre-pandemic level. In developing countries, the total amount of financing for infrastructure projects exceeded 60 billion US dollars, but still remains 9% less than before the pandemic (*Figure 2.8*). At the same time, investment in developed countries has already exceeded the pre-pandemic 2019 level[64].

Figure 2.8: Financing of infrastructure agreements in developing countries, 2011-2021[65]



Since the SDGs represent a wide range of ambitious goals, private sector contributions can take a variety of forms. For example, such contributions may be behavioural rather than financial: transparent reporting and compliance with the principles of sustainable development, responsible environmental impact policy, etc. But even despite such non-financial contributions, large investment amounts from private sector are also needed to finance the SDGs[66].

Private sector organisations can invest in sustainable development by financing their own modernization projects. In particular, companies are implementing investment projects aimed at reducing negative impacts on the environment: reducing greenhouse gas emissions, harmful atmospheric emissions, consumption of water, energy and other resources, transition to renewable energy sources, etc. Regulatory requirements and expectations of customers and partners can be incentives

[63] United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2022, https://developmentfinance.un.org/fsdr2022

[64] United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2022, https://developmentfinance.un.org/fsdr2022

[65] Source: United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2022, https://developmentfinance.un.org/fsdr2022 —based on data of Renitiv, Infrastructure 360 database

[66] UNCTAD (2014). World Investment Report 2014. Investing in the SDGs: An Action Plan, https://unctad.org/system/files/official-document/wir2014_en.pdf

for companies to implement these projects. Regulatory requirements include environmental taxes, ban on the use of outdated technologies, requirements for monitoring, reporting and verification of emissions, launch of quota trading market.

A great incentive for business to implement modernization projects in the future may be the implementation of EU plans for energy transition and climate neutrality. The European Green Deal provides for implementation of a number of actions to transform Europe into a climate-neutral continent by 2050. The Green Deal aims to include issues of sustainable development in the existing and new EU legislation. The European Green Deal includes plans for updating the greenhouse gas emission trading system, introducing a new carbon border adjustment mechanism (CBAM), updating the regulation on land use and forestry, the Renewable Energy Directive and the Energy Efficiency Directive (EED). The EU taxonomy sets requirements for EU companies engaged in certain types of activities to disclose information about meeting certain conditions on the way to achieving global environmental goals. Such information can affect investment decisions of market players, therefore it stimulates companies to invest in environmental modernization. In addition, the Corporate Sustainability Reporting Directive (CSRD) was adopted as part of the European Green Deal to strengthen the requirements for sustainability reporting by private organisations. In the context of adaptation of the EU legislation in Ukraine, these regulatory requirements may affect Ukrainian business. Thus, the legislation on monitoring, reporting and verification (MRV) of greenhouse gas emissions entered into force in Ukraine in 2021.

An important factor for increasing private financing in the sustainable development areas is the availability of various innovative financial instruments and financing sources for business. At the same time, another important challenge is focusing investors' attention on SDG-related investment, which is hindered by a number of additional restrictions[67]:

- Firstly, as an example of "market failures", the cost of capital typically does not take into account any negative external effects. Accordingly, when making decisions, investors consider only the direct cost and do not take into account the wider social and environmental costs associated with their investment. This way, capital can be reallocated in favour of projects or enterprises that are not sustainable and do not make a significant contribution to achieving the SDGs.
- Secondly, lack of transparency on the results of ESG activities makes it impossible to consider these factors when making investment decisions. Asset managers and institutional investors do not have sufficient information to make more informed investment decisions that could harmonize companies' activities with the SDGs.
- Thirdly, investment decisions are primarily influenced by monetary benefits and performance indicators. This results in an excessive focus on short-term results, tendencies towards passive investing and copying the behaviour of other financial market players, and a focus on financial returns rather than considering the wider social or environmental balance between risk and return.

However, the interest of the world's leading investors (primarily European and North American countries) in the impact of companies on achieving the Sustainable Development Goals is increasing. According to a survey by The SustainAbility Institute, in 2020, 65% of the surveyed investors used ESG ratings at least once a week and 96% of them at least once a year[68]. According to the survey, the most common sources of information for investors on contribution of companies to sustainable development include corporate ESG ratings, direct inquiries to companies, reports on sustainable development, and independent research.

Investment is one of the factors of general economic growth. However, capital investment in Ukraine is decreasing, reaching a

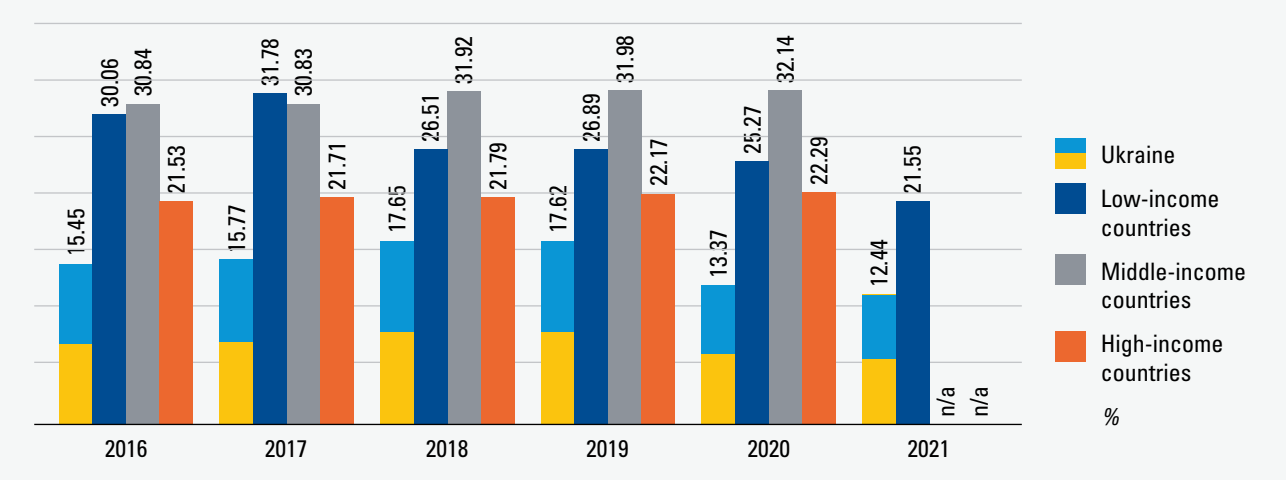
[67] UNCTAD (2014). World Investment Report 2014. Investing in the SDGs: An Action Plan, https://unctad.org/system/files/official-document/wir2014_en.pdf

[68] Rate the Raters 2020: Investor Survey and Interview Results, https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/sustainability-ratetheraters2020-report.pdf

historical minimum for the entire period since 2000. According to the World Bank[69], level of gross accumulation of fixed capital in Ukraine decreased to 12.4% of GDP in 2021.

The reasons for such low level of investment include a number of internal economic and political factors. The major political factors include low effectiveness of governance, which affects the quality of regulations and public services, formulation and implementation of the public policy, and ability of the government to keep its promises and enforce its own rules. Additional obstacles for investors include corruption and weak judiciary system in Ukraine. Thus, according to the rule of law index, Ukraine ranks 74th out of 189 countries[70]. As for economic obstacles, investors are discouraged by significant vulnerability of Ukraine's economy to economic turbulence, as evidenced by increase in Ukraine's budget deficit during the coronavirus crisis. In addition, financing is very expensive in Ukraine due to high interest rates on loans resulting from the country's low credit rating[71]. With the start of a full-scale Russian invasion into Ukraine, the uncertainty about the future investment climate is growing.

Figure 2.9: Accumulation of fixed capital in Ukraine in comparison with groups of countries by income level, 2016–2021[72]



In order to build a financial system that facilitates investment in sustainable development, Ukraine should provide investors with appropriate incentives by using state regulation (for example, carbon tax or market for trading quotas for greenhouse gas emissions), promote disclosure of information on ESG factors and their consideration when making investment decisions, create additional incentives and benefits for responsible investment behaviour.

Private finance available in the assets of Ukrainian businesses should be considered as a really promising SDG financing source that will be able to cover a significant part of the development needs. However, currently there is no trend among large Ukrainian companies towards significant investment that takes into account the factors of sustainable development. Therefore, the real challenge for the state is to draw investors' attention to the SDGs by raising their awareness of ESG aspects and creating proper incentives.

[69] Source: World Bank, https://databank.worldbank.org/source/world-development-indicators/Series/NE.GDI.FTOT.ZS#

[70] World Justice Project (2021), https://worldjusticeproject.org/rule-of-law-index/country/2021/Ukraine/

[71] UkraineInvest official website, National Strategy for Increasing Foreign Direct Investment in Ukraine, https://ukraineinvest.gov.ua/uk/fdi-strategy/

[72] Source: World Bank, https://databank.worldbank.org/source/world-development-indicators/Series/NE.GDI.FTOT.ZS#

SWOT: finance of business

Strengths:

- Given Ukraine's desire for integration with the European Union, the stronger regulatory requirements and the requirements of European companies to contractors, there is a tendency to allocate private investment for sustainable development. In particular, this is promoted by active updating and strengthening of the EU legislation in connection with implementation of the European Green Deal, and gradual adoption of similar legislation by Ukraine.

Weaknesses:

- Despite the growing interest of the US and European investors in ESG information, investors and business managers are primarily guided by financial and operational indicators of projects, rather than environmental and social factors and their long-term impacts.
- Lack of transparent information on the effectiveness of investment projects in accordance with the SDGs. Key private business decision-makers cannot correctly predict social and environmental impact of projects due to lack of information on implementation of the SDGs during development of investment projects.

Opportunities:

- Providing investors with incentives through state regulation. The state has many instruments to attract private investors to finance those projects that directly contribute to the SDGs, or take into account social and environmental aspects when making investment decisions. Such instruments include state regulation and transparent reporting in accordance with international standards.

Threats:

- Ability of private business to allocate investment for development and the SDGs depends on the general investment climate and economic growth in the country. As a result of Russia's war against Ukraine, Ukraine has already suffered huge losses, including production assets and infrastructure. Economic and political instability limit the incentives and ability of businesses to invest in projects that will contribute to progress in achieving the SDGs.

Non-governmental organisations

Non-governmental organisations include non-profit organisations, charity foundations, unions and associations operating independently of governments and pursuing significant social or environmental goals. Usually, non-governmental organisations are financed by donations from citizens, large businesses and international organisations. Non-governmental organisations are one of the key entities that contribute to fulfilment of obligations in the context of achieving the SDGs at the national and regional level. Their areas of activity include awareness raising, capacity building, project development and implementation, assistance in development and monitoring of state policies, data collection, providing technical expertise, and holding governments accountable for fulfilment of their obligations[73].

In addition to domestic state sources, private development financing, including by various non-governmental organisations, is becoming increasingly important. According to the OECD, development financing by non-governmental

[73] Non-Governmental Organizations (NGO) Major Group (2017), https://sustainabledevelopment.un.org/content/documents/15002NGO.pdf

organisations and private agencies in member states of the OECD Development Promotion Committee has a steady growth, and amounted to 34.41 billion US dollars in 2014 and 45.86 billion US dollars in 2020[74].

An important factor in the development of non-governmental organisations in Ukraine is the increase in the inflow of foreign donor funds to Ukraine after 2014. In connection with the Revolution of Dignity and Russia's aggression since 2014, international organisations promoting democracy and supporting development of strong civil society began to increase their grant offers in Ukraine. This resulted in creation of many organisations that help develop Ukraine in various social aspects.

According to the Ukrainian Philanthropists Forum (UPF)[75], an association uniting 39 charitable organisations, various non-governmental organisations spent more than UAH 730 million on projects in 2020. Most of these funds were spent for social protection of the population (51.3%) and health care (37.3%) (*Figure 2.10*). Although these organisations can be considered as a source of funding for the SDGs, they do not have their own funds, as they are non-profit organisations. The biggest sources for their financing are international grants, private business and benefactors who are the founders of these funds (*Figure 2.11*).

One of the advantages of SDG financing by non-governmental organisations is the fact that such associations have direct access to immediate implementation of projects. That is, their non-involvement in debt mechanisms and non-accountability to governments of countries provide an opportunity to quickly and purposefully allocate funds to implementation of socially important projects.

Figure 2.10: Key funding sources for charitable organisations in Ukraine in 2020[76]

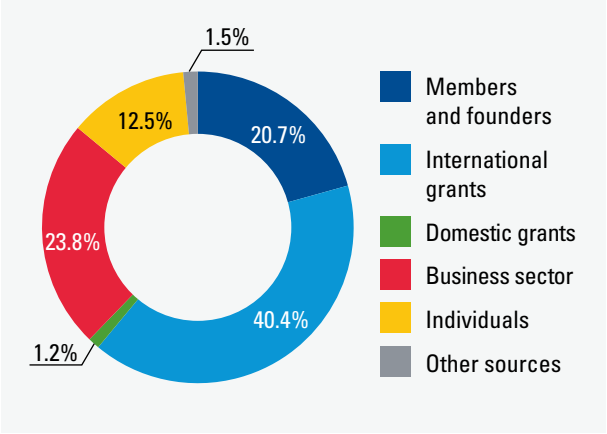
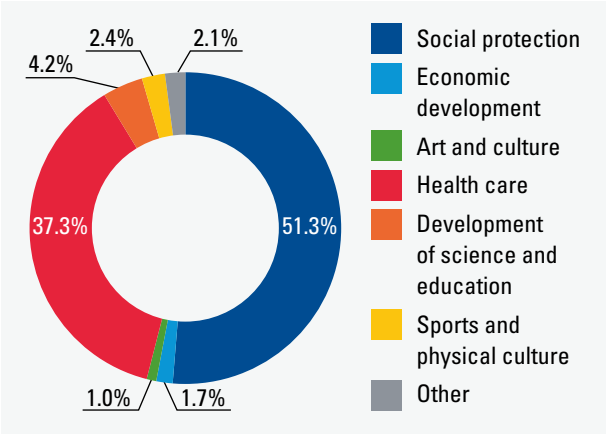


Figure 2.11: Distribution of expenses by areas of charitable assistance in Ukraine in 2020[77]



In view of Russia's war against Ukraine, an increase in cash flows to non-governmental organisations in Ukraine is expected. These proceeds can be used to provide priority humanitarian aid and implement social projects to overcome the short- and long-term negative consequences of the war. Provided that the trend towards the growth of development financing by non-governmental organisations is maintained, they may cover a significant part of investment in achieving the SDGs in the future.

[74] Source: data of the Organisation for Economic Cooperation and Development (OECD), https://data.oecd.org/chart/6LgP

[75] https://rating.ufb.org.ua/rating/blago-charts?currentYear=2020

[76] Source: data from the official website of the Ukrainian Philanthropists Forum (2020), https://rating.ufb.org.ua/rating/blago-charts?currentYear=2020

[77] Source: data from the official website of the Ukrainian Philanthropists Forum (2020), https://rating.ufb.org.ua/rating/blago-charts?currentYear=2020

SWOT: non-governmental organisations

Strengths:

- Non-governmental organisations can quickly and purposefully allocate funding for immediate implementation of social and environmental projects. They attract funds from various sources and do not need such significant (compared to the state) spending of administrative resources for management and increase of financial resources (for example, due to debt mechanisms).
- In Ukraine, non-governmental organisations primarily allocate financing to social protection and health care, which directly affect the quality of life of the population.

Weaknesses:

- Scope of financing by non-governmental organisations is insignificant compared to public financing or international assistance.
- Usually, one particular non-governmental organisation is focused on a particular type of activity and, accordingly, contributes to achievement of one or more related SDGs.
- Given the increasing urgency of key environmental issues, such as climate change, water pollution, irrational use of resources, there is a small number of non-governmental organisations focused on achieving the environmental SDGs.

Opportunities:

- In view of Russia's war against Ukraine, non-governmental organisations quickly unite volunteer efforts and mobilize charitable donations and international flows of funds for providing prompt assistance to the population of Ukraine. Their efforts will primarily be directed to socially important issues.

Threats:

- None identified in the context of sustainable development financing.

2.3 International private financing sources

Foreign direct investment

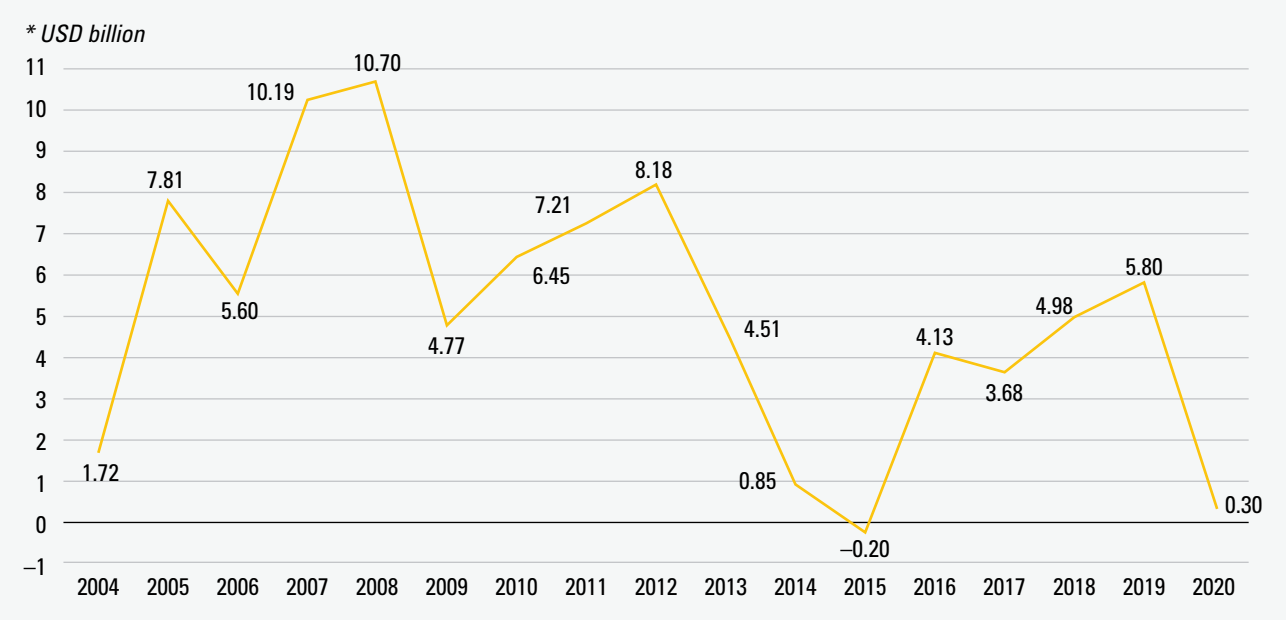
Foreign direct investment (FDI) is an international investment made by residents of foreign countries (direct investors) with the aim of establishing a long-term interest in enterprises (enterprises with direct investment) that are residents of that particular country. The long-term interest means a long-term relationship between the investor and the enterprise with direct investment and its material influence on the management of the enterprise.

Global level of private foreign investment decreased in 2020, largely due to the COVID-19 pandemic. However, the volume of FDI in the world increased by 88% in 2021 compared to 2020 and reached 1,815 billion US dollars, exceeding the pre-pandemic level by 37%[78]. While the restored investment activity in 2021 was generally high, the global outlook for 2022 remains uncertain due to Russia's war in Ukraine and its wider geopolitical influence.

[78] OECD (2022). FDI in figures, https://www.oecd.org/investment/investment-policy/FDI-in-Figures-April-2022.pdf

The total amount of FDI inflows to Ukraine after 2014 significantly decreased compared to previous periods, reaching a maximum of $5.8 billion US dollars in 2019. In 2020, there was a sharp decline to 0.3 billion US dollars of net FDI inflows to Ukraine[79]. Before 2014, the largest amount of FDI was 10.7 billion US dollars in 2008, which at that time amounted to 5.7% of Ukraine's GDP. FDI flows to Ukraine amounted to 3.8% of GDP in 2019 and 0.2% in 2020.

Figure 2.12: Net flows of foreign direct investment in Ukraine, 2004–2020[80]



The National Strategy for Increasing Foreign Direct Investment in Ukraine[81] was developed in 2021 to provide recommendations on development of promising industries for attracting investment and ways to increase the FDI inflow into Ukraine. The strategy is built around cross-sectoral (privatization, export promotion, education, digital transformation, etc.) and sectoral incentives to increase foreign investment. Allocating investment to Ukraine has a number of positive aspects for international investors[82]:

- Ukraine has the largest population in Eastern Europe, which is an undeniable advantage for investors targeting the local market. Moreover, Ukraine has a high percentage of people with secondary and higher education, which makes the Ukrainian labour market competitive.
- Despite the low GDP per capita, which is often associated with poor infrastructure development, physical infrastructure in Ukraine is relatively developed according to certain indicators (logistics efficiency index, digitization implementation index). However, the damage and destruction of infrastructure caused by the full-scale Russian invasion is already significant as of June 2022, and full war losses are currently difficult to estimate.
- The cost of hiring an employee is relatively low in the Ukrainian labour market, since the minimum and average wages are much lower than in European countries, while taxes and duties do not differ much. Thus, the minimum monthly wage was 175.2 US dollars in Ukraine in 2020, whereas, for example, it was 666.7 US dollars in Poland, 629 US dollars in Czech Republic, 1,763.6 US

[79] Data of the World Bank, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=UA

[80] Source: information from the UkraineInvest official website, "National Strategy for Increasing Foreign Direct Investment in Ukraine", https://ukraineinvest.gov.ua/uk/fdi-strategy/ - data of EY European Investment Monitor 2020

[81] UkraineInvest official website, National Strategy for Increasing Foreign Direct Investment in Ukraine, https://ukraineinvest.gov.ua/uk/fdi-strategy/

[82] National Strategy for Increasing Foreign Direct Investment in Ukraine (2021), https://ukraineinvest.gov.ua/wp-content/uploads/2021/08/FDI-Strategy-Section-1-The-View-from-Above-UKR.pdf

dollars in Germany, 1,856.9 US dollars in Belgium [83]. In 2020, the average monthly salary in Ukraine was 430 US dollars, 1,342.8 US dollars in Poland, 1,572.4 US dollars in Czech Republic, 4,045 US dollars in Germany, 4,352.7 US dollars in Belgium[84].

- Electric power for businesses in Ukraine costs less than in the EU, however, given Ukraine's recent accession to the European Electricity Network (ENTSO-E), this disparity may decrease.

On the other hand, investors face a number of restraining factors: low GDP per capita, poorly developed rule of law, corruption, unreliable judiciary, ineffective governance, weak business environment, and lack of macroeconomic stability. The full-scale war of Russia against Ukraine, which began in February 2022, creates additional significant obstacles to investing in Ukraine.

In the Global Foreign Direct Investment Country Attractiveness Index, Ukraine ranks 58th in terms of investment attractiveness[85].

Like it is the case with domestic private investment, external investors are mostly guided by financial and operational indicators of projects. Thus, each individual project of attracted FDI can directly contribute to achievement of individual SDGs, or, on the contrary, have risks of, for example, negative impact on the environment, as in the case of investment in industrial sectors. Therefore, it is necessary to have public policies in place that will promote attraction of FDI in the sectors that most contribute to sustainable development or encourage consideration of ESG factors and broad social and environmental risks when making investment.

An additional factor of the state policy on FDI is that the government has the opportunity to adapt policies to attract FDI in strategic industries for the country or in rapidly developing industries, while influencing the domestic economic development. Thus, for example, FDI can contribute to transition of the countries significantly dependent on sale of domestic exhaustible natural resources to development of more advanced production activities that have greater added value[86].

The state leadership of Ukraine has taken significant steps to promote the inflow of investment from abroad. They include preferential taxes and duties (preferential duty, deferment/exemption from VAT, tax holidays, etc.), implementation of public-private partnership projects, adaptation of legislation to harmonize it with European markets, etc. All these activities are aimed at creating an attractive environment for private investors and simplifying trade procedures with EU countries[87]. At the same time, the war and, as a result, the uncertainty of the future economic climate in Ukraine, both short- and long-term, results in significant decrease in the amount of foreign investment inflows into the country.

[83] Data of the International Labour Organization, https://www.ilo.org/shinyapps/bulkexplorer52/?lang=en&segment=indicator&id=EAR_4MMN_CUR_NB_A

[84] Data of the United Nations Economic Commission for Europe, https://w3.unece.org/PXWeb2015/pxweb/en/STAT/STAT__20-ME__3-MELF/60_en_MECCWagesY_r.px/table/tableViewLayout1/

[85] Global Foreign Direct Investment Country Attractiveness Index, http://www.fdiattractiveness.com/ranking-history/

[86] United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2022, https://developmentfinance.un.org/fsdr2022

[87] UkraineInvest official website, National Strategy for Increasing Foreign Direct Investment in Ukraine, https://ukraineinvest.gov.ua/uk/fdi-strategy/

SWOT: foreign direct investment

Strengths:

- As the SDG financing source, private foreign investment can be a significant source of proceeds for the country. World statistics shows that FDI exceeds international official development assistance to low- and middle-income countries and is becoming an increasingly significant source of development financing (*Figure 2.2*).
- Attracting FDI to Ukraine has a number of undeniable advantages for foreign investors. Such factors include a large number of educated population, developed physical infrastructure, low cost of hiring an employee and electric power. All this directly contributes to attraction of FDI in Ukraine.
- The country's leadership systematically works to attract investment, creating economic incentives for investors, adapting legislation and markets to European standards, as well as simplifying trade relations with European countries.

Weaknesses:

- When making investment decisions, foreign investors, same as local ones, rely on project's profitability rather than on its social and environmental aspects.
- FDI flows fluctuate depending on economic situation in the country, effectiveness of public administration and business environment, which results in decline in FDI during periods of economic and political instability.

Opportunities:

- FDI is an extremely important external financial income for countries with limited opportunities to mobilize domestic resources. In addition to immediate direct effects, such as creation of production assets, inflows of FDI have collateral effects, such as inflow of knowledge and production technologies into the country.
- With proper government policy in the country, FDI inflows can contribute to a number of structural changes in the country's economy, allowing to increase production, improve processing industry and reduce resource orientation of the economy.

Threats:

- Uncertainty as to the future economic climate in Ukraine due to consequences of Russia's war against Ukraine discourages international investors from financing projects in Ukraine.

International non-governmental organisations

International non-governmental organisations generally have more financial opportunities than local ones due to wider network of their financing sources. In addition, international financial organisations use experience and expertise acquired in implementation of similar projects around the world when carrying out their activities. The factor of greater opportunities and existing experience creates certain advantages for international non-governmental organisations in comparison with local ones.

The number of non-governmental organisations in the world is constantly growing, various organisations, including UN agencies, are increasingly

focusing their efforts on contributing to achievement of the 2030 Sustainable Development Agenda. The projects implemented by non-governmental organisations in the world vary greatly, and organisations themselves are valuable partners in providing technical assistance, raising awareness of the SDGs, and supporting engagement of the private sector in achievement of the SDGs. In addition, some of these organisations may provide financing for SDG-related investment instruments and participate in innovative partnerships[88].

As noted in section 2.2, according to the OECD, there is a steady growth of development financing by non-governmental organisations and private agencies in member states of the OECD Development Promotion Committee, which amounted to 34.41 billion US dollars in 2014 and 45.86 billion US dollars in 2020[89]. However, this value remains significantly smaller as compared to the official development assistance and other official flows provided by member states of the OECD Development Assistance Committee to promote development in beneficiary countries.

Some of the world's largest non-governmental organisations and their characteristics are presented in the table below (*Table 2.1*). These are just a few organisations out of thousands in the world that have smaller amounts of financing, but make their contribution to promoting sustainable development.

Table 2.1: Examples of the world largest non-governmental organisations[90]

Name of organisation	Area of activity	Annual income
BRAC International	• Reduction of number of people living below the poverty line (SDG No. 1); • Reduction of unemployment (SDG No. 8); • Climate action (SDGs No. 6, 13, 14, 15); • Improving access of the population to medical services (SDG No. 3); • Gender equality (SDG No. 5); • Development of education (SDG No. 4).	1.08 billion US dollars
Doctors without borders	A medical humanitarian organisation that provides emergency medical assistance to the population suffering from armed conflicts (SDG No. 3).	2 billion US dollars
Open Society Foundations	An international network of non-profit organisations whose objective is to ensure justice, develop democratic institutions and fight for human rights (SDG No. 16).	500 million US dollars

A striking example of an international non-governmental organisation operating in Ukraine is Caritas Ukraine. This organisation is part of one of the largest international networks of charitable organisations in the world and Europe, and has been operating in Ukraine for the past 28 years. Caritas Ukraine focuses its activities in six main areas:

- Assistance to children, youth and families in crisis situations;
- Health care;
- Assistance to people with special needs;
- Social problems of migration;
- Assistance in emergency situations;
- Community building.

The financial statements of this organisation[91] show that its revenues amounted to almost EUR 9.5 million in 2020, while about EUR 9.1 million was spent. The largest financing was received from the global network of foreign branches of Caritas and The Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) (*Figure 2.13*). As for the organisation's areas of expenses, the largest part of financing was allocated to humanitarian support, community building, migration assistance, and health care (*Figure 2.14*).

[88] UNCTAD (2021). Investing In the Sustainable Development Goals: The Role of Diplomats, https://unctad.org/system/files/official-document/diaepcb2021d1_en.pdf

[89] Source: data of the Organisation for Economic Cooperation and Development (OECD), https://data.oecd.org/chart/6LgP

[90] Development aid, Top 10 largest NGOs in the world (2021), https://www.developmentaid.org/news-stream/post/124777/top-10-largest-ngos-in-the-world

[91] Source: data from the official website of Caritas Ukraine, Financial Statement (2020), https://caritas.ua/finrep/year2020/

Figure 2.13: Proceeds of Caritas Ukraine for 2020 by organisations[92]

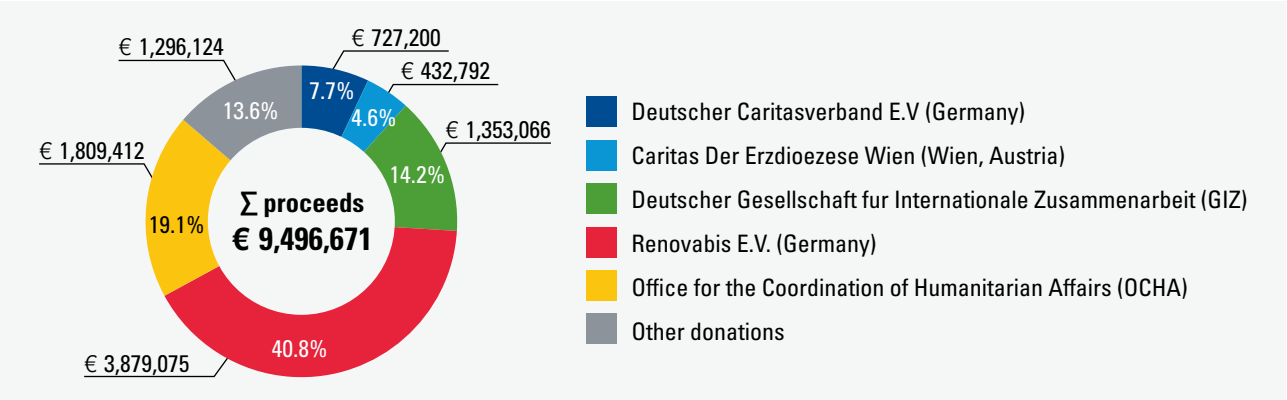


Figure 2.14: Expenditures of Caritas Ukraine for 2020 by areas of activity[93]

SWOT: international non-governmental organisations

Characteristics of international non-governmental organisations are similar to those of domestic non-governmental organisations (see SWOT in clause 2.2 Non-governmental organisations)

+

Strengths:

- International non-governmental organisations generally have more financial capacity because having a global network of sources, as well as wider experience and expertise.

[92] Source: data from the official website of Caritas Ukraine, Financial Statement (2020), https://caritas.ua/finrep/year2020/

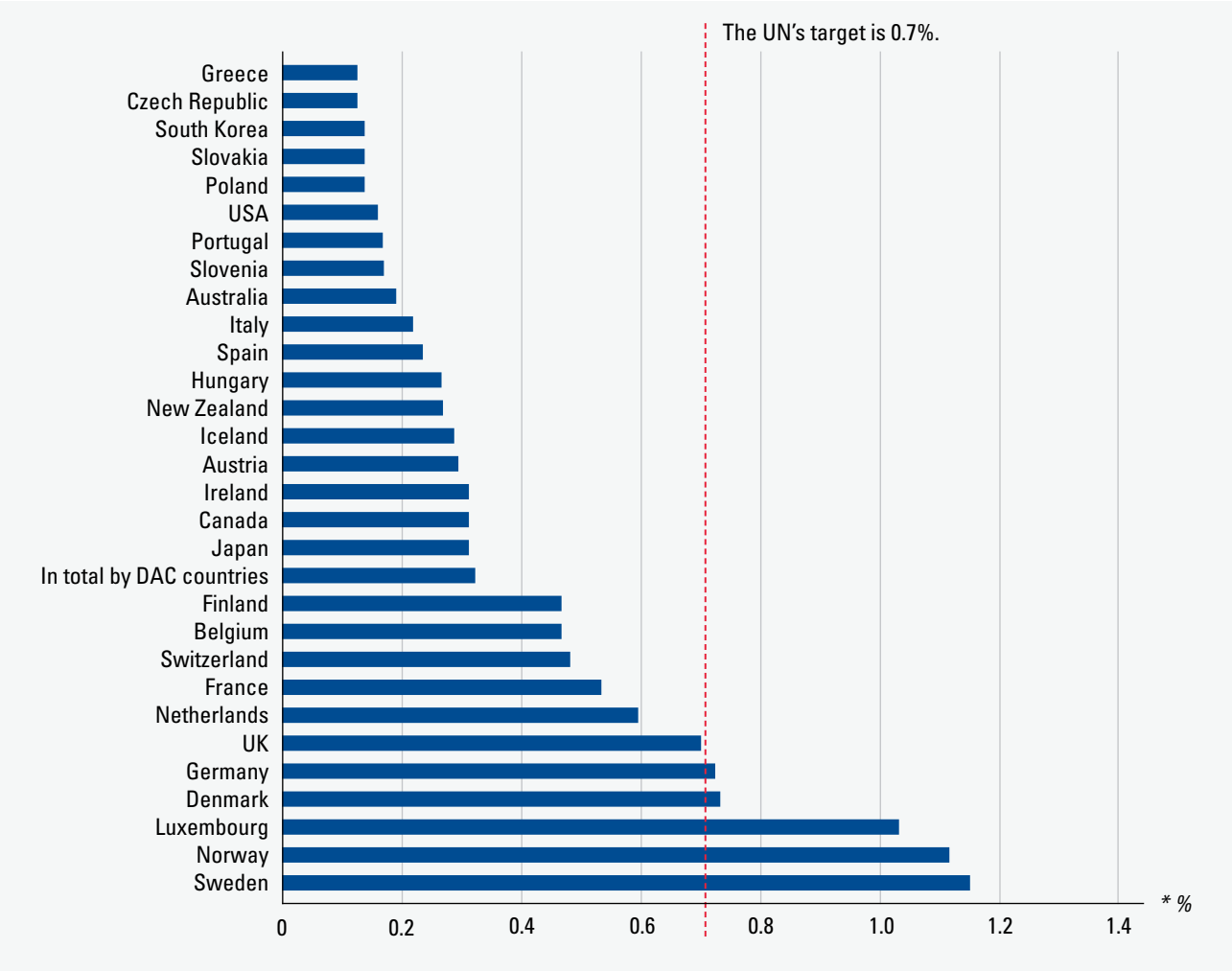
[93] Source: data from the official website of Caritas Ukraine, Financial Statement (2020), https://caritas.ua/finrep/year2020/

2.4 External public financing sources

Grants and loans (official development assistance)

Official development assistance (ODA) is the direct state assistance aimed at economic development and well-being of developing countries[94]. This assistance was initiated by the OECD Development Assistance Committee (DAC) in 1969[95] and still remains the largest source of foreign assistance for developing countries. ODA funding flows are allocated to a defined list of recipient countries[96] and multi-lateral development institutions. ODA can take the form of grants, when financial resources are provided to developing countries without interest and without conditions for repayment, or soft loans that must be repaid with interest, though at a much lower rate than offered by commercial banks.

Figure 2.15: Equivalent of the provided official development assistance as a share of the gross national income (GNI) of donor countries, 2020[97]



[94] OECD, Official Development Assistance (ODA), https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm

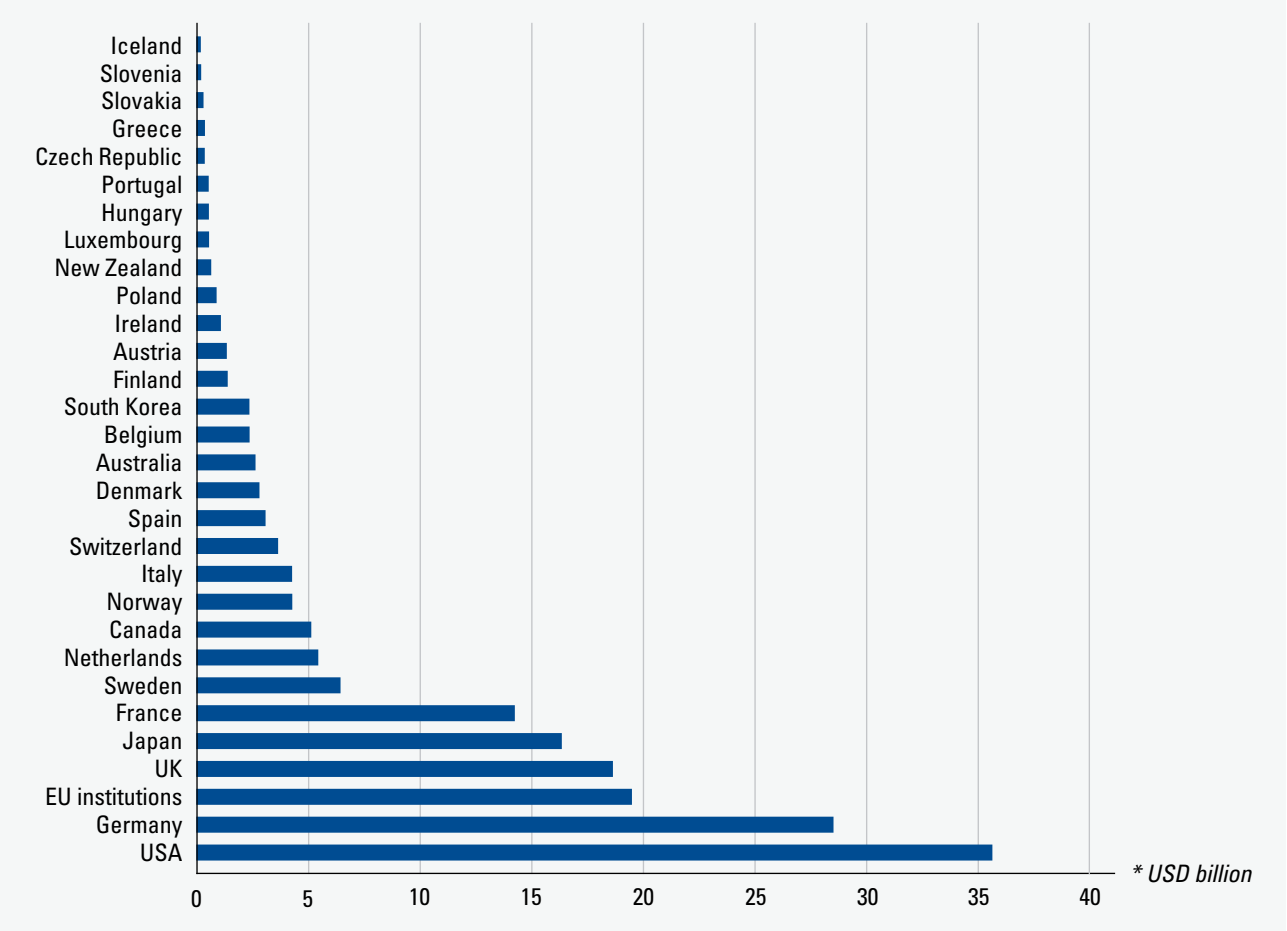
[95] OECD, Official development assistance – definition and coverage, https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/officialdevelopmentassistancedefinitionandcoverage.htm

[96] OECD, DAC List of ODA Recipients (2021), https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-List-ODA-Recipients-for-reporting-2021-flows.pdf

[97] Source: information from publication by the OECD, "Official Development Assistance (ODA)" (2020), https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/What-is-ODA.pdf - data of OECD (2021), DAC 1 - Total official and private flows, http://stats.oecd.org/Index.aspx?DataSetCode=TABLE1

According to the OECD, the total amount of ODA provided in 2020 amounted to about 162 billion US dollars[98], which in aggregate amounted to 0.33% of gross national income (GNI) of the donor countries. More detailed information by donor countries is given in *Figure 2.16 and Figure 2.17*.

Figure 2.16: Equivalent of the provided official development assistance, 2020[99]



ODA assistance is provided to socially important projects in developing countries aimed at building infrastructure, meeting basic human needs, community development, environmental protection and human capital development, as well as peace-building, business environment development, disaster prevention and disaster response, as well as climate actions. Technical operation and maintenance guidance is also provided as needed to ensure effective management of facilities and other systems financed at the expense of ODA grants.

Ukraine is included in the list of ODA recipient countries, as determined by the Development Assistance Committee, and receives financial assistance on an ongoing basis. In 2020, the total amount of ODA received by Ukraine, including loans and grants, amounted to 2,548.6 million US dollars[100] (*Table 2.2*). The largest part of financing to Ukraine comes from international multilateral development institutions, namely 1,421.0 million US dollars and 321.9 million US dollars as grants. It should be noted that there is a rapid growth of revenues due to significant increase in loans in 2020 by more than 7 times compared to 2019.

[98] OECD, Official Development Assistance (ODA), https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm

[99] Source: information from publication by the OECD, "Official Development Assistance (ODA)" (2020), https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/What-is-ODA.pdf - data of OECD (2021), DAC 1 - Total official and private flows, http://stats.oecd.org/Index.aspx?DataSetCode=TABLE1

[100] Source: data from the OECD portal, https://stats.oecd.org/qwids/#?x=1&y=6&f=2:182,4:81,7:1,9:85,3:51,5:3,8:85&q=2:182+4:1,2,80,81,116,G27+7:1+9:85+3:51+5:3+8:85+1:1,2,25,26,77+6:2016,2017,2018,2019,2020,2021

Table 2.2: Official development assistance for Ukraine, 2016–2020, million US dollars[101]

Indicator	2016	2017	2018	2019	2020
Total ODA					
Total, of which	1,582.3	1,205.1	1,256.6	1,306.5	2,548.4
Member countries of the Development Assistance Committee	985.3	764.6	790.6	778.0	778.9
Other countries	21.8	21.9	20.4	20.6	26.1
Multilateral development institutions	569.5	413.5	445.5	507.9	1,743.4
of which, grants					
Total, of which	1,148.6	1,090.9	1,153.6	1,111.0	1,084.6
Member countries of the Development Assistance Committee	641.6	749.7	763.7	745.3	736.7
Other countries	21.8	21.9	20.4	20.6	26.1
Multilateral development institutions	479.6	314.2	369.5	345.1	321.9
of which, loans					
Total, of which	433.7	114.2	82.3	189.6	1,457.9
Member countries of the Development Assistance Committee	343.8	14.9	6.3	26.8	37.0
Other countries	n/a	n/a	n/a	n/a	0.03
Multilateral development institutions	89.9	99.3	76.0	162.8	1,421.0

Ukraine regularly receives ODA in the form of grants and loans, and given the consequences of Russia's war against Ukraine, such assistance will be extremely relevant in the future. According to estimates of the NBU, the losses of physical capital caused by the destruction of enterprises, housing and infrastructure reached 100 billion US dollars as of early May 2022, which is the equivalent of 50% of Ukraine's GDP in 2021[102]. At the same time, the total amount of external public and state-guaranteed debt amounted to 59.81 billion US dollars as of May 2022[103]. In this context, it will be important to increase financial assistance through the grant instrument, since increase in the share of loan assistance will result in increase of debt obligations.

[101] Source: data from the OECD portal, https://stats.oecd.org/qwids/#?x=1&y=6&f=2:182,4:81,7:1,9:85,3:51,5:3,8:85&q=2:182+4:1,2,80,81,116,G27+7:1+9:85+3:51+5:3+8:85+1:1,2,25,26,77+6:2016,2017,2018,2019,2020,2021

[102] National Bank of Ukraine (2022). Report on financial stability, https://bank.gov.ua/admin_uploads/article/FSR_2022-H1.pdf?v=4

[103] Ministry of Finance of Ukraine, State and State-guaranteed Debt, https://www.mof.gov.ua/uk/derzhavnij-borg-ta-garantovanij-derzhavju-borg

SWOT: grants and loans (official development assistance)

Strengths:

- Official development assistance (ODA) is the largest external state source of proceeds to Ukraine and is spent on social and environmental projects. This makes it an important source of financing to achieve the SDGs.
- Part of the ODA funds is received as grants. Grants do not need to be repaid, so states can receive financing without assuming additional debt obligations. This advantage is especially relevant for low-income countries.
- As part of ODA, in addition to financial proceeds, assistance is also provided in the form of technical support and consultations on effective management and technical guidance on operation of infrastructure facilities or other systems financed by ODA.

Weaknesses:

- Part of ODA is provided as soft loans, which is the form of the most of assistance received by Ukraine in 2020. This results in increase in government obligations.

Opportunities:

- Current level of ODA is about 0.3% of the gross national income (GNI) of the donor countries, while the target is 0.7%. Therefore, the trend towards an increase in the volume of ODR is likely to continue. Considering Russia's invasion in Ukraine, it is expected that a larger amount of assistance will be used to overcome the consequences of the war in Ukraine.

Threats:

- None identified in the context of sustainable development financing

Other official flows

Other official flows (OOF) are defined as transactions of the official (state) sector with the countries included in the list of official development assistance recipients, as determined by the OECD Development Assistance Committee. This type of assistance is distinguished from ODA because it does not meet certain ODA criteria, or because it is not primarily aimed at development, or because it consists of grants by less than 25%. This category of assistance includes export credits granted directly to the recipient of assistance by an official body or institution (official direct export credits); net acquisition by governments and central credit and monetary institutions of securities issued by multilateral development banks on market terms; subsidies (grants) to the private sector to soften its loans to developing countries; as well as funds to support private investment[104].

OOF make up approximately a third of the total amount of official financial assistance to developing countries (Figure 2.17). However, for middle-income countries, OOF account for up to half of total development financing, while it is only about 10% in the least developed countries and other low-income countries.

[104] OECD, Other official flows (OOF) (indicator), https://www.oecd-ilibrary.org/development/other-official-flows-oof/indicator/english_6afef3df-en

Figure 2.17: Official financial flows to developing countries (gross disbursements in 2019 prices)[105]

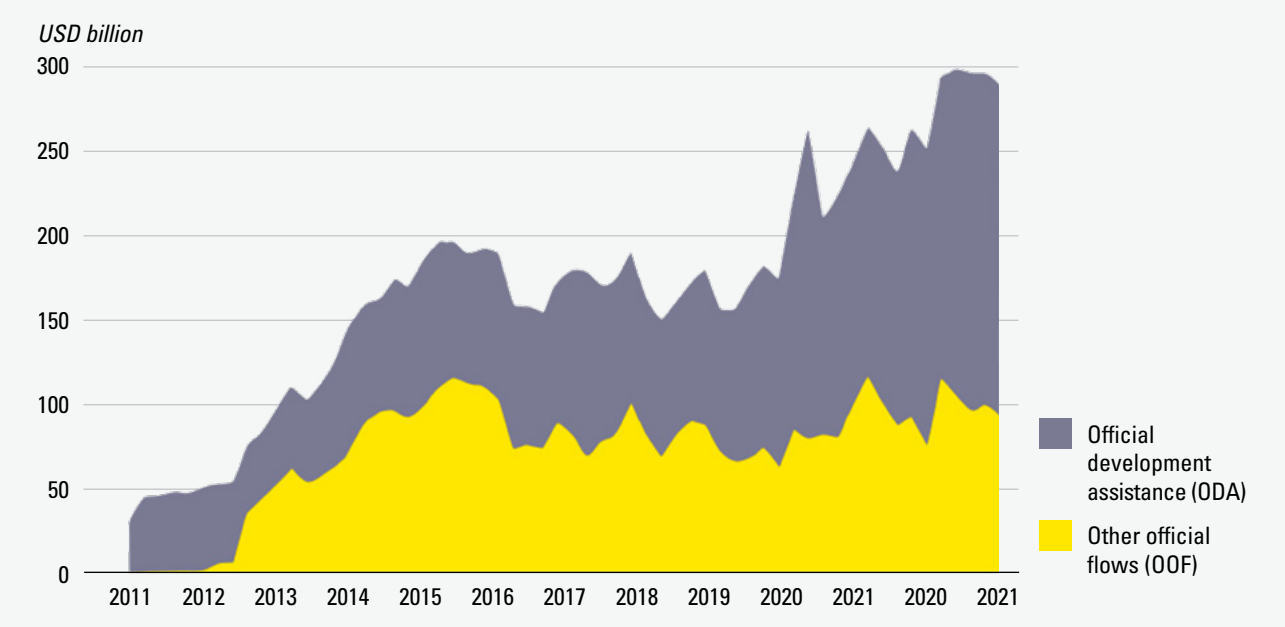
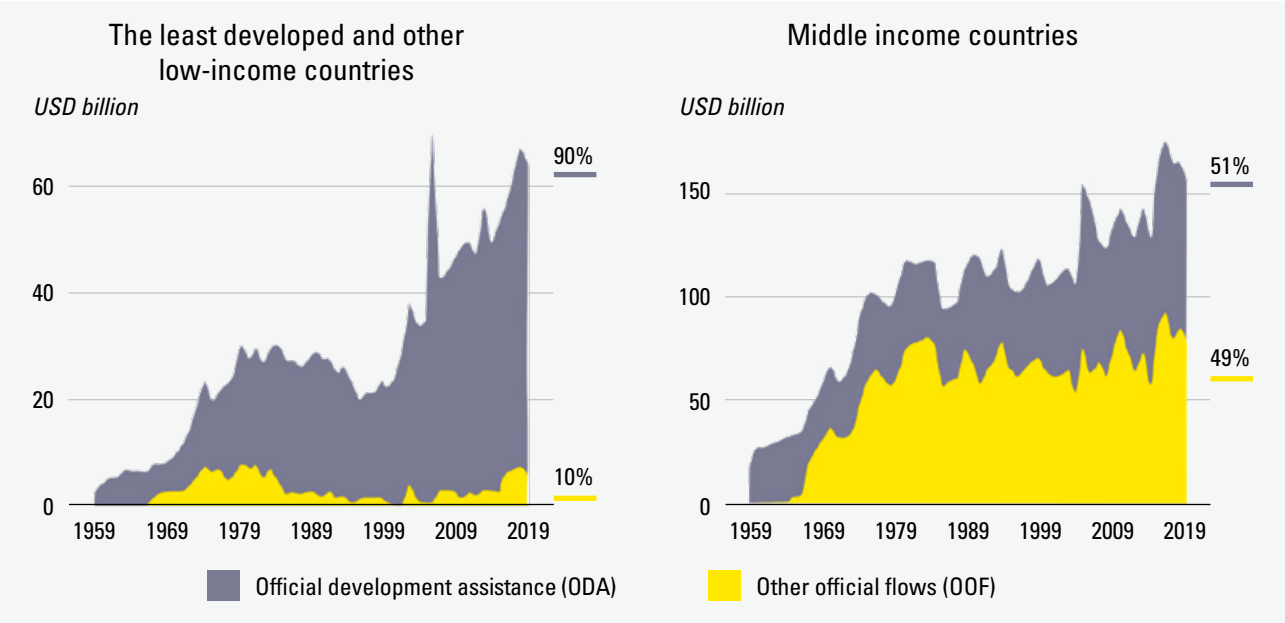


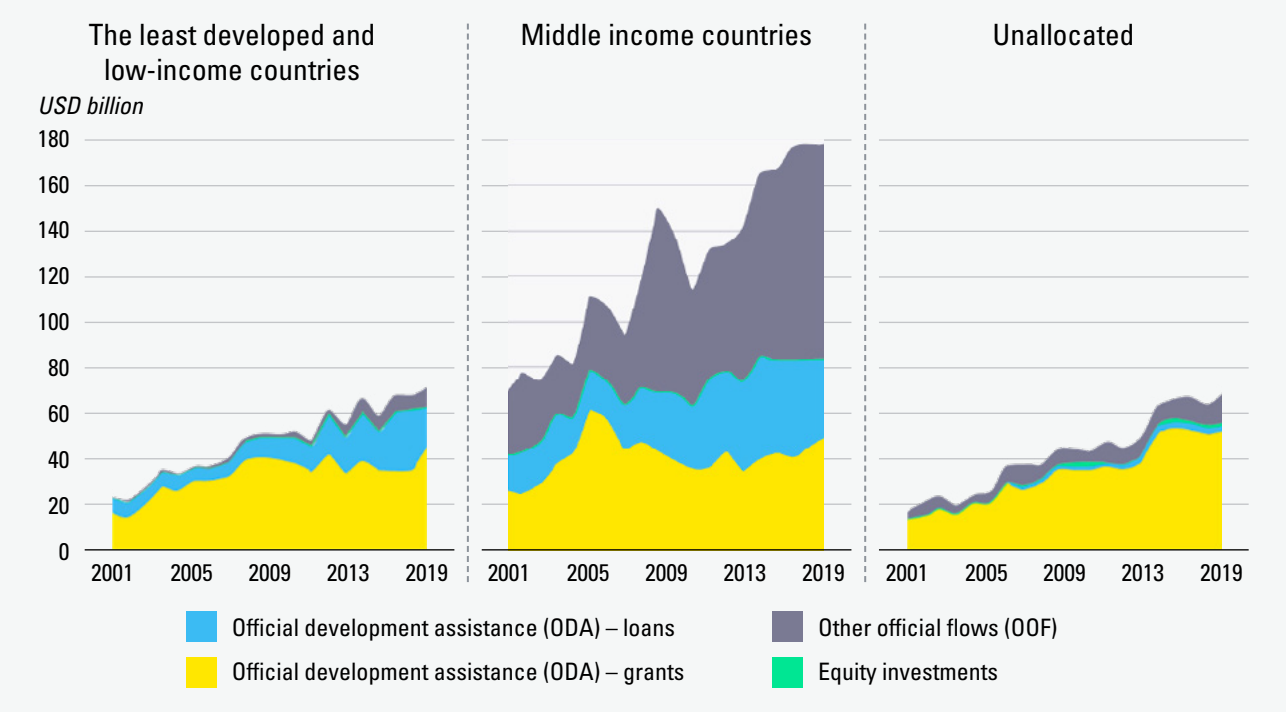
Figure 2.18: Official financial flows by countries with different incomes (gross disbursements in 2019 prices)[106]



[105] Source: information from publication by the World Bank Group, "A Changing Landscape: Trends in official financial flows and the aid architecture" (November 2021), https://thedocs.worldbank.org/en/doc/9eb18daf0e574a0f106a6c74d7a1439e-0060012021/original/A-Changing-Landscape-Trends-in-Official-Financial-Flows-and-the-Aid-Architecture-November-2021.pdf - data of OECD DAC Tables 2a and 2b

[106] Source: information from publication by the World Bank Group, "A Changing Landscape: Trends in official financial flows and the aid architecture" (November 2021), https://thedocs.worldbank.org/en/doc/9eb18daf0e574a0f106a6c74d7a1439e-0060012021/original/A-Changing-Landscape-Trends-in-Official-Financial-Flows-and-the-Aid-Architecture-November-2021.pdf - data of OECD DAC Tables 2a and 2b

Figure 2.19: Official financial flows by countries with various income (in 2019 prices)[107]



In 2020, the OOF proceeds in Ukraine made 1,669.1 million US dollars, which is the highest value since 2016[108]. In comparison, official development assistance (ODA) for Ukraine is 1.5 times bigger than proceeds from other official flows to Ukraine.

Table 2.3: Proceeds from other official flows to Ukraine, 2016–2020, million US dollars

	2016	2017	2018	2019	2020
Total other official flows, of which:	1,128.70	573.28	1,031.47	1,557.16	1,669.10
Member countries of the Development Assistance Committee	11.16	9.29	13.94	86.93	42.34
Multilateral development institutions	1,117.54	563.99	1,017.51	1,470.23	1,626.76

By definition, OOF do not need to be aimed primarily at development or have a small grant component. OOF usually include non-soft loans, which are particularly important for countries that have moved into the middle-income category but still have difficulty in accessing affordable financing from private markets. This also includes instruments that can leverage private finance, such as mixed financing, which directs private capital to sustainable development projects while providing financial returns to investors. In this context, OOF are valuable in terms of mobilizing additional public and private resources for the needs of sustainable development financing.

[107] Source: information from publication by the World Bank Group, "A Changing Landscape: Trends in official financial flows and the aid architecture" (November 2021), https://thedocs.worldbank.org/en/doc/9eb18daf0e574a0f106a6c74d7a1439e-0060012021/original/A-Changing-Landscape-Trends-in-Official-Financial-Flows-and-the-Aid-Architecture-November-2021.pdf - CRS

[108] OECD, Other official flows (OOF) (Ukraine), https://stats.oecd.org/qwids/#?x=1&y=6&f=2:182,4:2,7:1,9:85,3:51,5:3,8:85&q=2:182+4:1,2,80,81,116,G27+7:1+9:85+3:51+5:3+8:85+1:1,2,25,26,77+6:2016,2017,2018,2019,2020,2021

SWOT: other official flows

Strengths:

- Although other official flows (OOF) to Ukraine are smaller than official development assistance (ODA), they are still quite significant in absolute terms.

Weaknesses:

- By definition, OOF-funded projects are not primarily aimed at development and SDGs or do not have a small grant component. Usually OOF include non-soft loans.

Opportunities:

- OOF use such instruments as mixed financing, which is important from the point of view of mobilizing private capital to finance sustainable development.

Threats:

- Because of the economic consequences of Russia's war against Ukraine, attracting a large number of OOF can be problematic, as they include non-soft loans. Grants and soft loans under official development assistance may be more relevant.

Chapter 3. Analysis of financing instruments

Along with the development and spread of financing sources in the world, approaches to financing and financial instruments are becoming more diverse. Ways of mobilizing and effectively using financial resources in the context of sustainable development are becoming increasingly innovative and diversified. In addition, cooperation between public and private organisations to achieve results in the area of sustainable development is increasing.

While some of these instruments and approaches are widely used (e.g. green bonds), others remain underused despite their potential. Obstacles to their further use vary from instrument to instrument and include: capacity constraints (level of expertise of financiers and beneficiaries), lack of public information, legal constraints (e.g. restrictions on receiving and using money), and political constraints (lack of interest).

Despite the fact that the diversity of financial instruments is an undeniably positive phenomenon, it greatly complicates the decision-making process. Leaders of countries face the challenge of determining which sources of proceeds are relevant to them, which of them can be claimed, how to access them, how to use these resources to achieve the transformation change, and how to develop cost-efficient assessment methods for submission of application, monitoring and assessment of the results. Therefore, some countries rely on support of development partners, such as UNDP and others when fulfilling the above tasks.

In practice, only a few countries have been able to effectively use some of the innovative financial instruments. For example, middle-income countries tend to use mixed financing mechanisms for infrastructure investment and/or green bond issuance. This approach to financing is difficult to implement in low-income countries. The insignificant use of SDG financing instruments by such countries is explained by the fact that financial service providers tend not to use innovative approaches in a more risky environment. Therefore, facilitating the capacity development is necessary for the countries seeking to maximize opportunities through the use of more sophisticated financial instruments[109].

3.1 Public-private partnership

Public-private partnership (PPP) is a system of interaction between public and private partners in which the resources of both are combined with the appropriate distribution of risks, responsibilities and rewards (reimbursements) between them. The goal of PPP in Ukraine is the mutually beneficial long-term cooperation in creation (restoration) of new and/or modernization (reconstruction) of the existing facilities requiring investment, and use (operation) of such facilities[110].

Public-private partnership is a key source of financing for developing countries or those restoring their economies under unfavourable conditions. Implementation of such projects allows to attract private capital to infrastructure, thus ensuring rapid economic growth,

[109] UNDP (2018). Financing the 2030 Agenda: An Introductory Guidebook for UNDP Country Offices, https://www.uncclearn.org/wp-content/uploads/library/financing_the_2030_agenda_co_guidebook.pdf

[110] Ministry of Infrastructure of Ukraine, Public-Private Partnership, https://mtu.gov.ua/content/erzhavnoprivatne-partnerstvo-publicprivate-partnerships.html

without significant investment from the state. In connection with Russia's war against Ukraine, there is an urgent need to implement the PPP mechanism. Implementation of large-scale modernization projects in various sectors of the economy requires significant investment resources, a powerful source of which can be found in the private business. At the same time, under conditions of post-crisis development, the business becomes increasingly interested in public support, which will reduce risks of private investment and increase reliability of investment projects for credit organisations. An important aspect of public-private partnership is the equality of partners. That is, the legal form of project implementation provides the investor with attractiveness, security of investing funds in the state property, while the main goal of the project is implemented. Public-private partnership can become the most relevant mechanism for solving socio-economic problems in Ukraine, thereby contributing to achievement of the SDGs.

In 2019, the United Nations Economic Commission for Europe adopted the concept "People-first Public-Private Partnerships for the SDGs" and PPP Guiding Principles in support of the United Nations Sustainable Development Goals.[111] The People-first PPP model is crucial for development and implementation of PPP projects to achieve the Sustainable Development Goals through infrastructure investment and creation of value for people. The People-first PPP model aims to create "value for people" in addition to encouraging inflows of private investment.

According to this model, PPP projects should now be assessed according to the following parameters:

1. Expanding access to essential services and promoting equity.
2. Improving environmental sustainability, reducing CO2 emissions for transition to green economy.
3. Increasing economic efficiency of the project.
4. Being replicable so that PPP projects can be scaled up and have a transformation effect.
5. Engaging all stakeholders[112].

The People-first PPP model was first reflected in the Ukrainian legislation in Order of the Ministry of Economy No. 1067 dated 14 December 2021 "On Approval of the Methodology for Analysing the Effectiveness of Public-Private Partnership[113]." According to the adopted changes, a PPP project must be consistent with the United Nations European Economic Commission's People-first Public-Private Partnerships Evaluation Methodology for the Sustainable Development Goals at all stages of the analysis[114].

Another important step was the adoption by the Verkhovna Rada of Ukraine of Draft Law No. 5090 "On Amendments to the Budget Code of Ukraine on the Regulation of Budgetary Relations in the Performance of Contracts Concluded within the Framework of Public-Private Partnership, Including Concession Contracts" in February 2022[115]. With the adoption of Draft Law No. 5090, an effective mechanism for state financing of long-term obligations under PPP projects (including concession) will be introduced, state support to the private partner will be guaranteed, predictable and prioritized, which is a positive signal for the market and potential investors[116].

[111] Guiding Principles on People-first Public-Private Partnerships in support of the United Nations Sustainable Development Goals. ECE/CECI/2019/5, https://unece.org/DAM/ceci/ppp/Standards/ECE_CECI_2019_05-en.pdf

[112] United Nations Economic Commission for Europe, What are People-first PPPs?, https://www.uneceppp-icoe.org/people-first-ppps/what-are-people-first-ppps/

[113] Order of the Ministry of Economy of Ukraine "On Approval of the Methodology for Analysing the Effectiveness of Public-Private Partnership" No. 1067 dated 14 December 2021, https://zakon.rada.gov.ua/laws/show/z0109-22#Text

[114] People-first Public-Private Partnerships Evaluation Methodology for the Sustainable Development Goals. ECE/CECI/WP/PPP/2021/3, https://unece.org/sites/default/files/2021-11/ECE_CECI_WP_PPP_2021_03-en.pdf

[115] Draft Law on Amendments to the Budget Code of Ukraine on the Regulation of Budgetary Relations in the Performance of Contracts Concluded within the Framework of Public-Private Partnership, Including Concession Contracts, http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=71124

[116] Public-Private Partnership Agency (2022). The draft law on long-term obligations within the framework of PPP implementation adopted in the second reading, https://pppagency.me.gov.ua/uk/pryjnyato-v-drugomu-chytanni-zakonoproekt-pro-dovgostrokovi-zobovyazannya-v-ramkah-zdijsnennya-dpp/

International experience

In 2021, about 40 PPP projects worth EUR 8 billion were implemented in European countries (EU-27 and UK), which was 13% less than in 2020 (EUR 9.2 billion)[117] (*Figure 3.1*). The largest number of PPP agreements was concluded in Italy, where 3 projects worth in aggregate EUR 2.2 billion were implemented in 2021. France was the second in terms of size of the PPP market with the total volume of EUR 1.4 billion.

In terms of PPP implementation by sectors, both in terms of monetary value and the number of projects, transport sector became the leader (16 projects for the total amount of almost EUR 6 billion). In addition to infrastructure projects, PPP has also become an effective instrument in such sectors as environmental protection, education, health care, and energy (*Figure 3.2*). The use of PPP instrument in these sectors demonstrates its effectiveness in attracting both private and public funds to finance various areas of sustainable development and comprehensive achievement of the SDGs.

Figure 3.1: PPP in European countries by value and number of projects (2012-2021)[118]

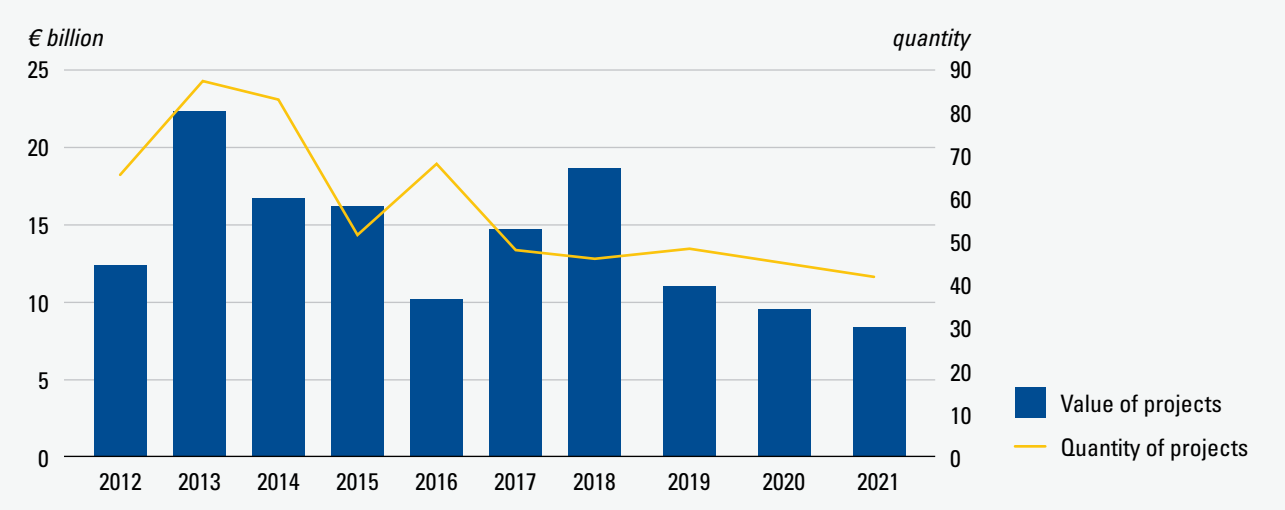
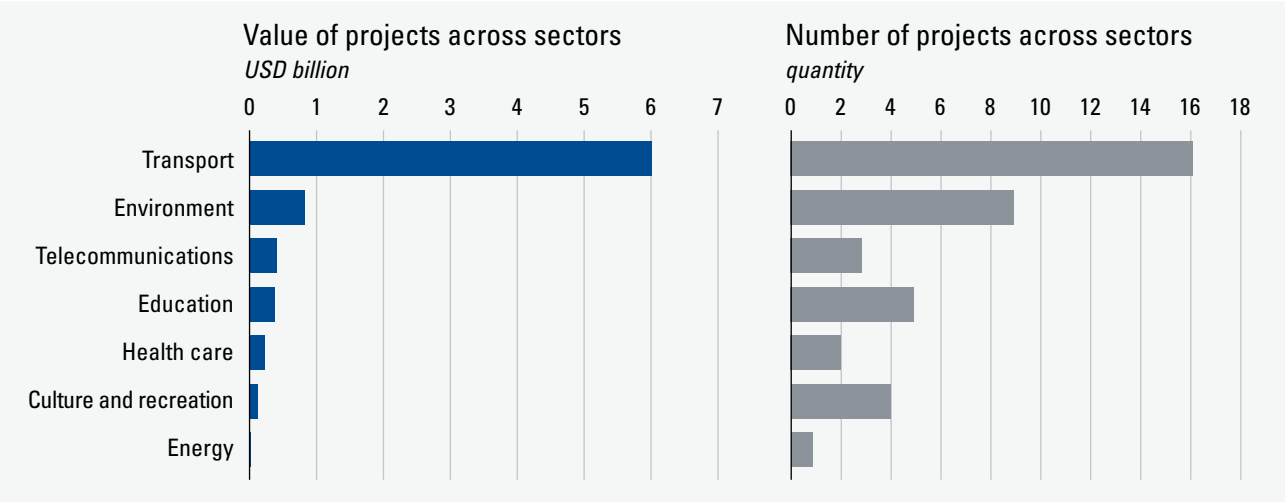


Figure 3.2: Number and value of PPP projects in Europe by sectors in 2021[119]



[117] European Public-Private Partnership Expertise Centre, Market Update Review of the European public-private partnership market in 2021, https://www.eib.org/attachments/publications/epec_market_update_2021_en.pdf

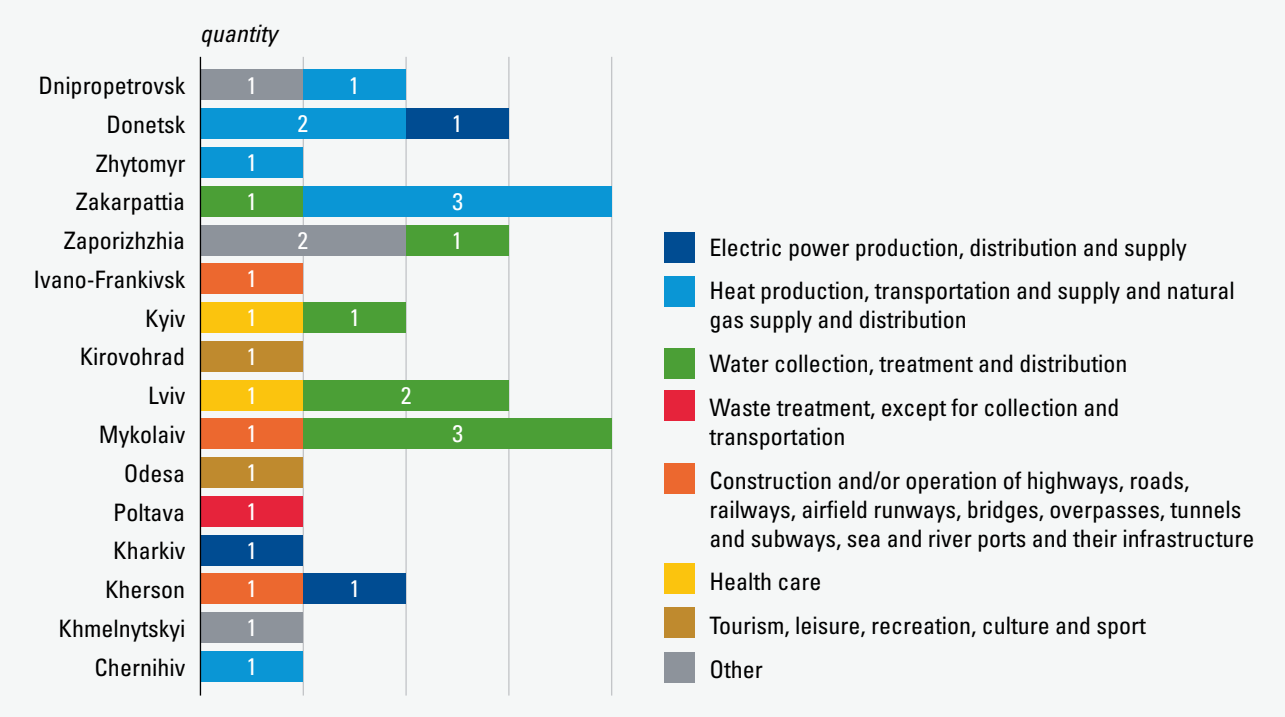
[118] Source: Data from the report of European Investment Bank (EIB), "Market Update Review of the European public-private partnership market in 2021" (March 2022), https://www.eib.org/attachments/publications/epec_market_update_2021_en.pdf

[119] Source: Data from the report of European Investment Bank (EIB), "Market Update Review of the European public-private partnership market in 2021" (March 2022), https://www.eib.org/attachments/publications/epec_market_update_2021_en.pdf

Ukrainian experience

The Ministry of Economy of Ukraine is the central executive body that ensures formation and implementation of the state policy in the area of public-private partnership. According to the Ministry of Economy, as of 1 January 2022, 193 contracts were concluded in Ukraine under PPP terms, among which 31 contracts are being performed.

Figure 3.3: Contracts concluded under PPP terms that are performed in Ukraine as of 1 January 2022 [120]



According to the Ministry of Economy, the most PPP contracts are concluded in "Electric power production, distribution and supply" and "Water collection, treatment and distribution", which can be attributed to implementation of SDG No. 7 "Affordable and clean energy" and SDG No. 6 "Clean water and sanitation".

In order to strengthen the institutional capacity, both at the central and local levels, State Organisation "Public-Private Partnership Agency" (hereinafter the PPP Agency) was established in 2019. The launch of the PPP Agency is intended to promote implementation of brand new projects, primarily in the area of Ukrainian infrastructure, to ensure increase in investments, create new jobs and contribute to growth of revenues to budgets at all levels. Activities of the PPP Agency include[121]:

- identification of potential projects;
- facilitation of necessary research;
- search for investors;
- assistance in preparation of tender documentation;
- management of PPP contracts.

According to Niko Hachechyladze[122], director of the PPP Agency, the prerequisites for successful use of PPP in Ukraine will be:

- A clear and understandable list of viable projects.
  - ensuring transparency and availability of the list of reconstruction projects in Ukraine;

[120] Source: data on the status of PPP implementation in Ukraine, Ministry of Economy of Ukraine, https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=9fc90c5e-2f7b-44b2-8bf1-1ffb7ee1be26&title=StanZdiisnenniaDppVUkraini

[121] State Organisation "Public-Private Partnership Agency", https://pppagency.me.gov.ua/uk/about/

[122] State Organisation "Public-Private Partnership Agency", Annual WAPPP Congress, (2022), https://pppagency.me.gov.ua/uk/shhorichnyj-kongres-wappp-mehanizm-dpp-dlya-dosyagnennya-czilej-27-sesiyi-konferencziyi-storin-cop27-ta-poza-yiyi-mezhamy/

  - preliminary assessment and prioritization of projects using a systemic industry approach.
- Standardized procedure for preparation of PPP projects.
  - simplified procedure for preparation of PPP projects;
  - preparation of sample tender documentation packages and contracts for projects in various areas.
- Transparent investor selection procedures.
  - ensuring the transparency of investor selection procedures through the PPP electronic procurement system (IT platform), developed with the support of the EBRD in accordance with the EU standards;
  - operation of standing qualified tender commissions.
- Engagement of advisers in preparation of restoration projects.
  - engagement of international financial institutions as a strategic advisor to the government to participate in selection of projects, identification of project priorities, preparation of sample tender documentation packages and contracts;
  - engagement of qualified advisers to preparation of each of the PPP projects.

According to NBU estimates, as a result of the full-scale war of Russia against Ukraine, as of May, losses of physical capital caused by destruction of enterprises, housing and infrastructure reached 100 billion US dollars[123]. Therefore, Ukraine will face significant infrastructural challenges in the future. The PPP mechanism will serve as effective instrument for quality implementation of this process.

PPP projects have international financial and technical support, and provide an opportunity to share financial responsibility between public and private partners, which makes PPP a universal instrument for attracting financing. In addition, the need for construction and reconstruction of many socially important infrastructure facilities, which are still owned by the state and are inaccessible to private investment, opens up great opportunities for achieving the common interest of partners on both sides.

On the other hand, PPP development presents certain challenges. The negative factors for such development are the imperfection of the PPP implementation process, namely the lack of transparent mechanism of operational activity at all stages of project implementation and assessment, lack of qualified personnel. Moreover, it is necessary to establish a clear procedure for implementation of PPP projects and align it with the legal framework. At the moment, there is no a defined unified approach to such implementation. Also, the number of potential participants from the private sector is quite limited because of the need to make large investments.

Additional challenges also arise from the side of the state authorities. Difficulties in implementation of PPP projects are caused by ineffective interaction between the state and local authorities and complexity of project approval procedure through the Cabinet of Ministers. Moreover, the annual next year budget formation process should include financing of such projects by the state, which would extend the time frame of project implementation. All this, together with the rapid change of state policy and legislative framework, actually releases the state from its responsibility for failure to fulfil its obligations to private partners.

[123] Official website of the National Bank of Ukraine, 2022, https://bank.gov.ua/admin_uploads/article/FSR_2022-H1.pdf?v=4 National Bank of Ukraine (2022). Report on financial stability, https://bank.gov.ua/admin_uploads/article/FSR_2022-H1.pdf?v=4

SWOT: public-private partnership

Strengths:

- PPP ensures engagement of both state and private capital in the development financing, while the risks are shared among all participants.
- PPP makes it possible to carry out construction and reconstruction of important state-owned or municipal infrastructure facilities, which have social benefits and promote economic activity.
- Establishment of the Public-Private Partnership Agency (PPP Agency) in 2019 will facilitate implementation of brand new PPP projects in Ukraine.

Weaknesses:

- Effectiveness of the PPP mechanism requires a regulated and harmonized legal framework regulating relevant relations, effective organisational processes and public administration in general.

Opportunities:

- PPP can become an effective mechanism for restoration of infrastructural facilities that have suffered significant destruction as a result of Russia's war against Ukraine.
- The UN Economic Commission for Europe adopted the "People-first PPP" model directly designed to maximize the social benefit of PPP projects and direct the investment in sustainable development. Ukrainian legislation already partially takes this model into account, and full harmonization of the legislation with the provisions of the "People-first PPP" model will allow more efficient implementation of the SDGs with the use of the PPP instrument.
- Adoption of Draft Law No. 5090 "On Amendments to the Budget Code of Ukraine on the Regulation of Budgetary Relations in the Performance of Contracts Concluded within the Framework of Public-Private Partnership, Including Concession Contracts" will introduce an effective mechanism for state financing of long-term obligations under PPP projects (including concession), which will be a positive signal for the market and potential investors.

Threats:

- Economic situation, rule of law and trust in the authorities play an important role in attracting investors to PPP projects. Therefore, economic and political instability, which is exacerbated by uncertainty and losses caused by Russia's war against Ukraine, as well as still unresolved issue of state guarantees to investors, negatively affect the attraction of investors to PPP projects.

3.2 Bonds aimed at achieving the SDGs

Bonds aimed at achieving the SDGs, in all their varieties, are becoming more and more widely used in the global loan market. Their key aspect is the use of proceeds from sale of bonds for environmental or socially important projects, or for implementation of certain indicators of sustainable development. Investors receive reports on the implemented projects, thus monitoring fulfilment of obligations by the issuer. In general, the bond instrument for achieving the SDGs is becoming increasingly relevant, thus allowing mobilization of larger amount of private resources. Creation of bond market aimed at achieving the SDGs has undeniable positive effects on the country's economy and on social aspects of citizens' lives. For example, the multiplier effect of attracting

investments in key sectors of the economy, developing the securities market and improving the investment attractiveness, business climate and competitiveness of the country.[124]

In the context of sustainable development, various types of bonds are considered: green bonds, social bonds, sustainability bonds, and sustainability-linked bonds. The core difference between such bonds is the targeted use of funds received from sale of bonds for various projects related to the SDGs.

The main aspect of *green bonds* is the use of proceeds from sale of such bonds for implementation of relevant green projects that should be properly recorded in the legal documentation of the security. All identified environmental projects should provide clear environmental benefits that will be assessed and, where possible, quantified by the issuer. The main objective of such projects is to achieve the following environmental goals: mitigation of climate change, adaptation to climate change, conservation of natural resources, preservation of biodiversity, prevention and control of pollution[125].

Social bonds are a type of bonds the proceeds from sale of which must be partially or fully used to finance or refinance social projects. Social projects are the projects aimed at solving or mitigating certain social issue and/or aiming to achieve positive social results. Areas of social projects include: availability of essentials (drinking water, electric power, medicine), affordable housing, reduction of unemployment, socio-economic development and capacity building. An important aspect of social bonds is targeting the most vulnerable groups of people[126]: people living below the poverty line; marginalized or segregated communities; people with disabilities; migrants and displaced persons; people who do not get access to basic goods and services; unemployed; women and/or sexual minorities; elderly; people affected by disasters; other vulnerable groups.

Sustainability bonds are, to some extent, a combination of green and social bonds. Proceeds from such bonds are used to finance or refinance a combination of environmental and social projects. Moreover, the requirements for projects and procedures for operations with sustainability bonds correspond to the procedures for both green and social bonds. Certain social projects are believed to have accompanying environmental benefits and vice versa, some green projects can have a positive impact on the social component. Thus, the classification of a bond, whether it is green, social or sustainability bond, is determined by the issuer in accordance with the objectives of the project[127].

The broadest concept of all types of bonds used to achieve the SDGs is the *sustainability-lined bonds*. In fact, the issuer undertakes to achieve certain goals related to ESG aspects and sustainable development in general, but uses the investment received from sale of the bond for projects that are not necessarily green or social. If in the case of social or green bonds, one of the key elements is the definition of the project in which the future investment will be made, then in the case of sustainability-linked bonds, the key is the definition of performance indicators[128].

The total number of bonds issued in the world in 2020 amounted to 1,744, and the scope of funds mobilized for sustainable development with the help of the bond instrument amounted 608.8 billion US dollars. Due to the COVID-19 pandemic, there was a global boom in issuance of social bonds, thus increasing their financing amount from 17 billion US dollars in 2019 up to 165 billion US dollars in 2020. At the same time, the volume of sustainability bonds also increased and reached almost 140 billion US dollars in 2020. Due to decline in business activity in early 2020, issuance of green bonds was somewhat suspended, but gathered momentum in the second half of 2020 and reached the mark of 295.9 billion US dollars. Green bonds account for almost half

[124] State Agency on Energy Efficiency and Energy Saving, Introduction of the green bond market in Ukraine, https://saee.gov.ua/sites/default/files/blocks/Prezentatsiya_green_bonds_lipen%CA%B9%202021%20%281%29.pdf

[125] International Capital Market Association, Green Bond Principles, (2021), https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf

[126] International Capital Market Association, Social Bond Principles, (2021), https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf

[127] International Capital Market Association, Sustainability Bond Principles, (2021), https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf

[128] International Capital Market Association, Sustainability-linked Bond Principles, (2021), https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf

of the total cash flows of bonds aimed at achieving the SDGs, and there is tendency to increase their share. This is due to the fact that the world economy is recovering after the pandemic, and issuers are looking for ways to attract funds to finance projects related to environmental protection. Although financing measures to overcome the challenges of the pandemic are no longer strictly necessary, attention to social and environmental initiatives has increased. Statistics on global issuance of bonds is given in *Figure 3.5*, *Figure 3.6*, *Figure 3.7*[129].

Figure 3.4: Key principles of bonds[130]

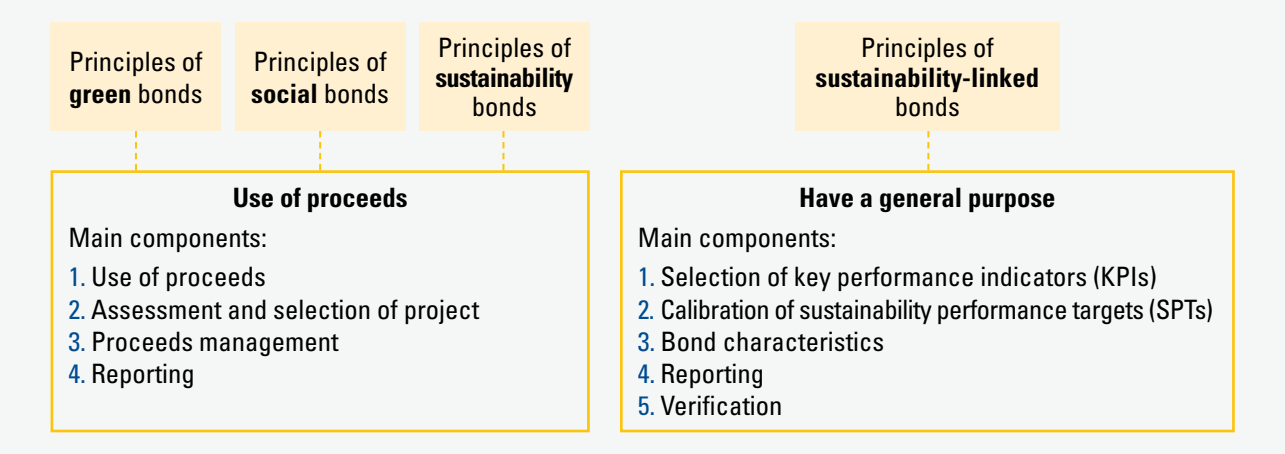
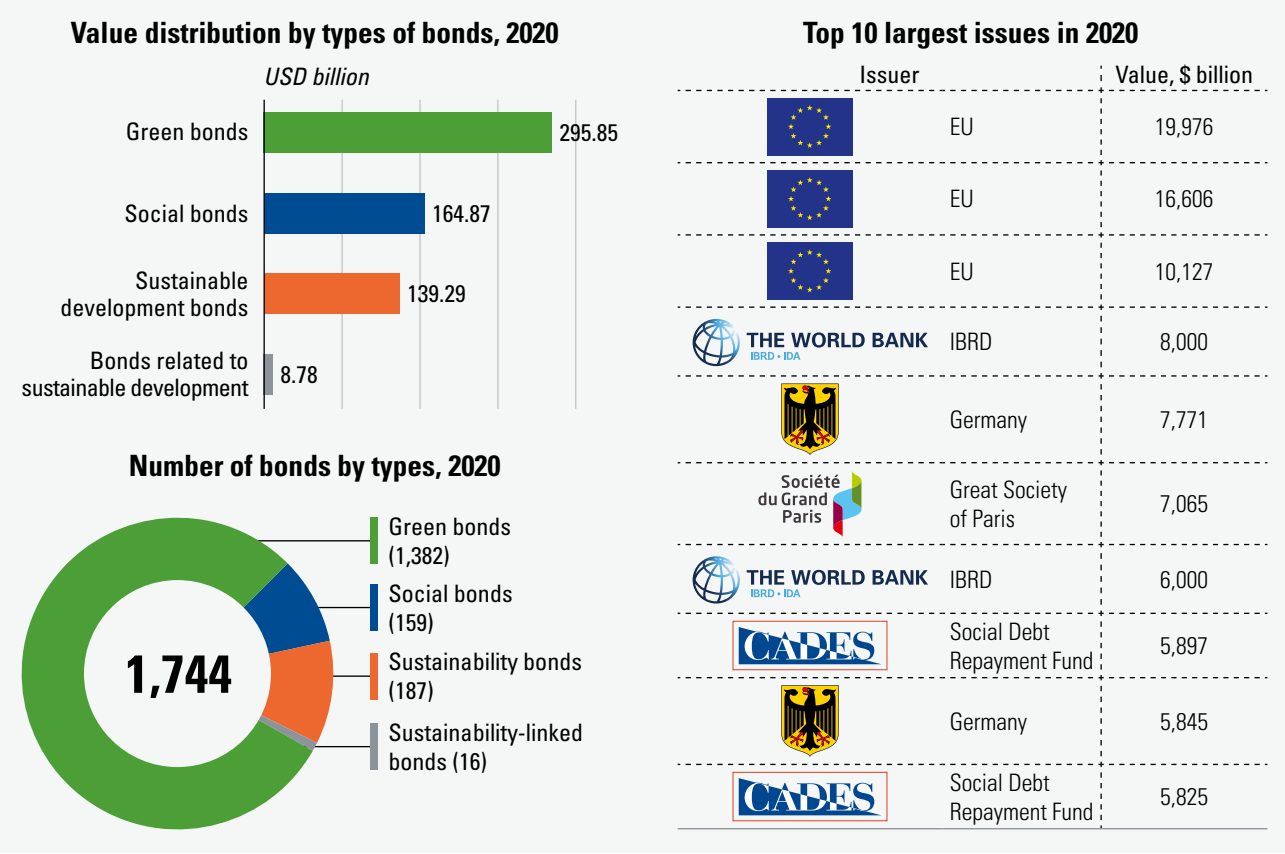


Figure 3.5: Overview of the global bond market, 2020[131]

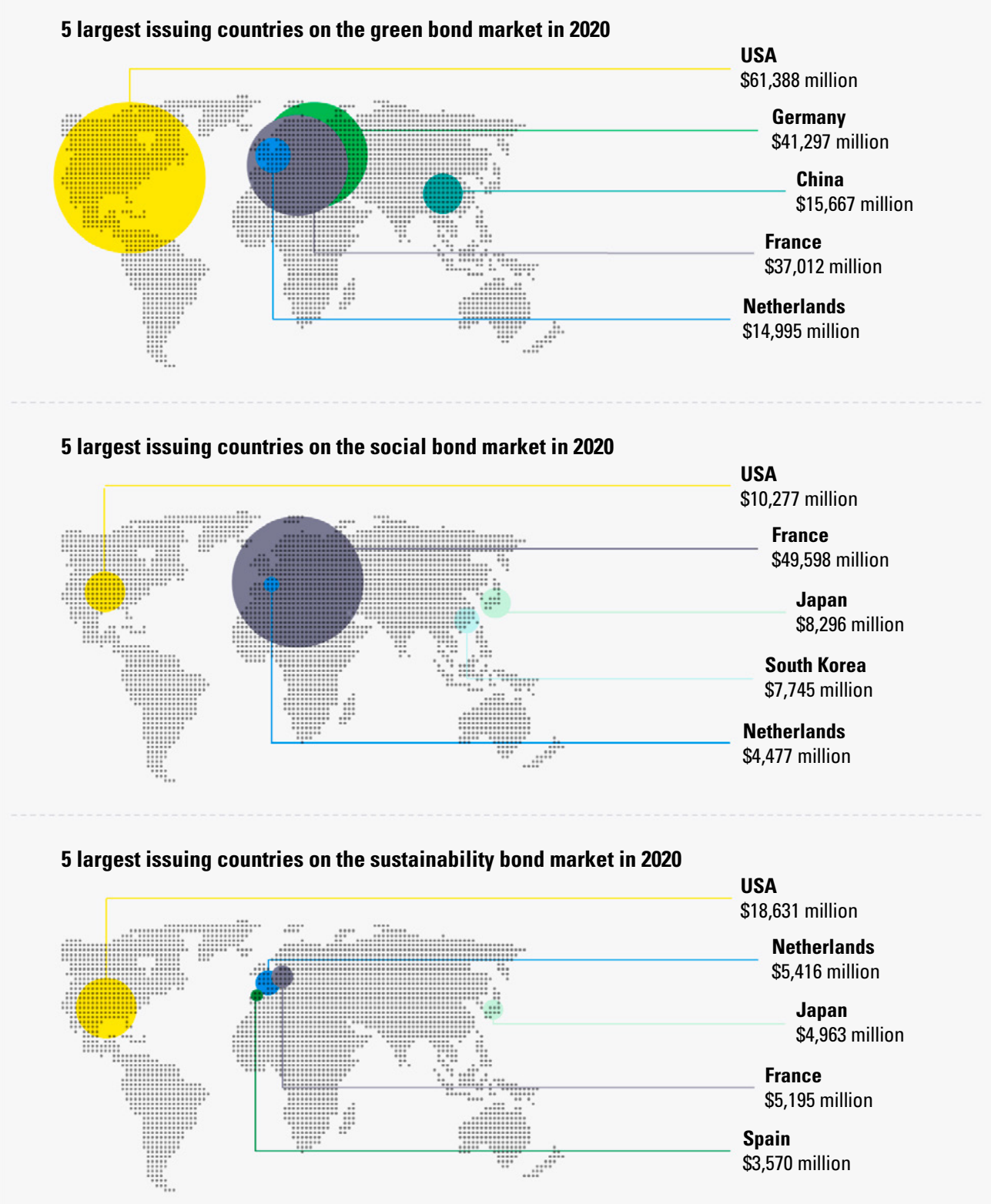


[129] Source: information from publication by Environmental Finance, "Sustainable Bonds Insight 2021", https://www.environmental-finance.com/assets/files/research/sustainable-bonds-insight-2021.pdf

[130] Source: information from publication by International Finance Corporation, "SBFN - Sustainable Finance Instruments Working Group" (2022), https://sbfnetwork.org/wp-content/uploads/pdfs/working-groups-sustainable-finance/DeniseOdaro_SBFN_SFIWG.pdf

[131] Source: information from publication by Environmental Finance, "Sustainable Bonds Insight 2021", https://www.environmental-finance.com/assets/files/research/sustainable-bonds-insight-2021.pdf – based on data from platform https://efdata.org/

Figure 3.6: The largest issuing countries on the bond market in 2020[132]



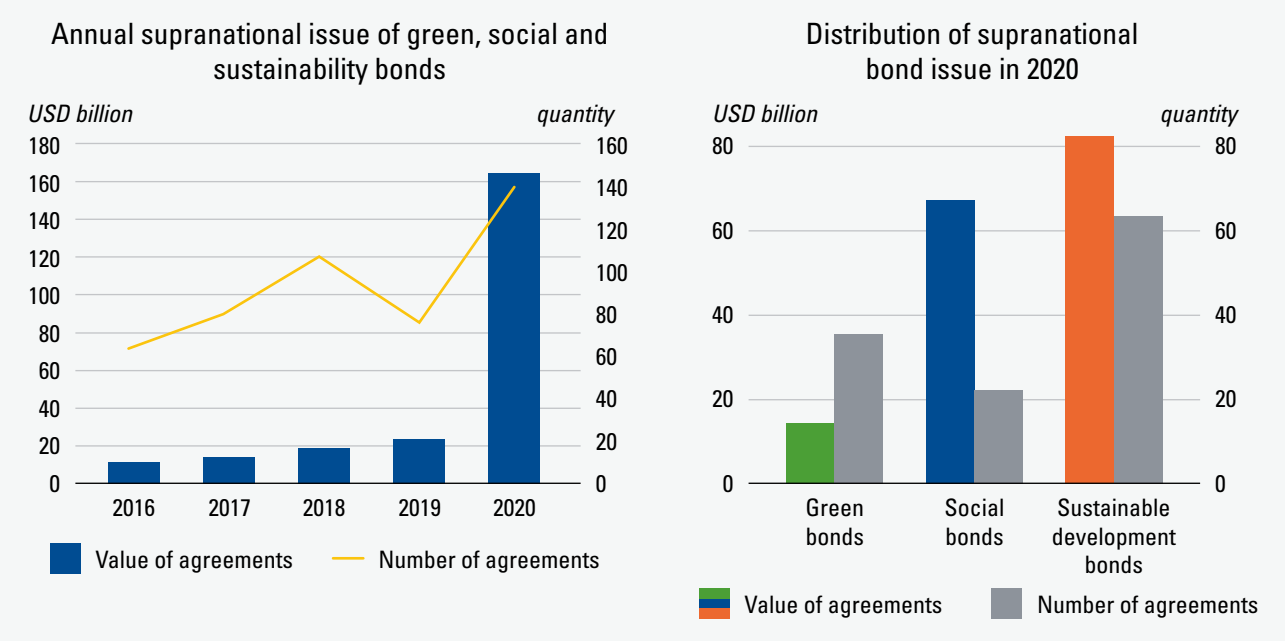
At the moment, of all the above types of bonds, the mechanism of green bonds has been launched in Ukraine. The prerequisites for issuing green bonds were the Energy Strategy of Ukraine until 2035[133], which sets ambitious goals for reducing CO2 emissions by 20% and achieving the share of electric power produced from renewable energy sources of 25% of the

[132] Source: information from publication by Environmental Finance, "Sustainable Bonds Insight 2021", https://www.environmental-finance.com/assets/files/research/sustainable-bonds-insight-2021.pdf – based on data from platform https://efdata.org/

[133] Ministry of Energy of Ukraine, Energy Strategy of Ukraine until 2035, (2017), http://mpe.kmu.gov.ua/minugol/doccatalog/document?id=245213112

total volume. Green bonds as an individual type of securities were introduced on 1 July 2021 together with the new version of Law of Ukraine No. 3480-IV "On Capital Markets and Organised Commodity Markets"[134]. According to the State Agency on Energy Efficiency and Energy Saving, the potential for attracting financing to environmental projects is estimated at about 73 billion US dollars by 2030[135]. The primary areas of use of funds include projects for development of renewable energy sources and alternative types of fuel, energy efficiency, waste disposal and processing, development of environmentally-friendly transportation, conservation of flora and fauna and water resources. Issuers of such securities include state authorities (for example, the Ministry of Finance of Ukraine), private enterprises, municipalities, international financial organisations, or specially created financial institutions.

Figure 3.7: Issue of government bonds by countries of the world[136]



In practice, it is known that the State Company NEC "Ukrenergo" used the *green bonds and sustainability-linked bonds* instrument. The amount of bond issue amounted to 825 million US dollars with a yield of 6.875% and a term of 5 years. As for the intended use of the funds, most of this financing will be spent on repaying the company's debt to SE "Guaranteed Buyer", and all other funds will be spent on financing environmental initiatives of NEC "Ukrenergo". Eurobonds of NEC "Ukrenergo" are the largest issue of Eurobonds by Ukrainian non-sovereign issuers for the entire period, as well as the largest issue of green Eurobonds by issuers from Ukraine and the CIS. In addition, these Eurobonds are the first simultaneously "green" and "sustainability" instrument from issuers in Ukraine. Eurobonds have an unconditional and irrevocable state guarantee of Ukraine. The credit rating of the issue was equated to the sovereign credit rating of Ukraine by Moody's and Fitch rating agencies[137].

However, issuing *green bonds* has several regulatory challenges that still need to be addressed, namely:

- Project assessment and selection process: establishment of procedures for compliance of the project with available areas, establishment of special criteria that allow identification and management of potential environmental risks.

[134] Verkhovna Rada of Ukraine, Law of Ukraine No. 3480-IV "On Capital Markets and Organised Commodity Markets", (2022), https://zakon.rada.gov.ua/laws/show/3480-15#Text

[135] State Agency on Energy Efficiency and Energy Saving of Ukraine, Introduction of the green bond market in Ukraine, https://saee.gov.ua/sites/default/files/blocks/Prezentatsiya_green_bonds_lipen%CA%B9%202021%20%281%29.pdf

[136] Source: information from publication by Environmental Finance, "Sustainable Bonds Insight 2021", https://www.environmental-finance.com/assets/files/research/sustainable-bonds-insight-2021.pdf – based on data from platform https://efdata.org/

[137] The official website of NEK "Ukrenergo" https://ua.energy/renewables/nek-ukrenergo-uspishno-zdijsnyla-vypusk-zelenyh-yevroobligatsij-na-sumu-825-mln-dolariv/

- Use of funds: provision of financing specifically for environmental projects, issuer's assessment of potential effectiveness of the project.
- Transparency of funds management: informing the investor about projects that received financing and applying international reporting standards in the areas of energy efficiency and renewable energy sources.
- Reporting: crediting of proceeds from placed bonds to a separate account, control of balance during reporting period, and engagement of auditor or other third party to control use of funds[138].

Since the bond is a debt obligation between the issuer and the investor, there is a possibility of non-fulfilment of these obligations due to, for example, misappropriation of funds or non-fulfilment of the set KPIs. As a result, this causes reputation losses, which affect the price of future bonds.

Compared to classic methods of debt financing, i.e. loans, *SDG-linked bonds* are not cheaper. This is explained by the fact that in both cases the main indicator for determining the interest rate is the potential investment return by issuer, in other words, its credit rating. Since this indicator does not depend on the project that is planned to be implemented, attracting investments will cost about the same.

An additional risk of using a bond instrument is the risk of misuse of funds. Proceeds from sale of bonds issued for a specific project, provided that the issuer has money for this project, can be allocated for other needs or financial projects. For example, funds received from sale of green bonds that secure construction of a solar power plant, subject to availability of funds in the issuing company, can actually be used to finance partial construction or reconstruction of a thermal power plant unit. Thus, the investor may be misled and funds that should finance an environmental project will actually finance a project that is not related to achievement of the SDGs.

If the country's government has issued bonds aimed at SDGs for a specific project, and the cost of the project unexpectedly increases during its implementation, the government will be forced to allocate additional funds from the budget to fulfil its obligations under the bonds and avoid fines. This situation leads to reallocation of budget funds and forced adjustment of other state expenditures. Thus, the government leadership must decide what will be more profitable for the state: avoiding fines and reducing certain costs, or paying penalty interest and reputation losses.

A negative factor of bonds aimed at achieving the SDGs is also the difficulty of obtaining objective evidence regarding the fulfilment of obligations under the bonds. Even when it is possible to demonstrate the areas of use of proceeds from bonds, proving their specific measurable impact on sustainable development is a problem. Such assessment may require conducting experiments, involving independent audit companies, control groups, etc. Proper assessment takes time and money, and the results may be disappointing or unavailable until the bonds mature. Therefore, investors can claim penalty interest on bonds. In fact, there have been no cases where investors have claimed penalty interest for green bonds, social bonds, sustainability bonds, and sustainability-linked bonds, but technically this possibility remains.

In addition to the above negative factors, linking a bond to financing of a certain project can overestimate the price of some bonds and underestimate others. In practice, investors are more inclined to buy bonds aimed at building schools, kindergartens and hospitals, and, at the same time, are less inclined to finance government agencies, regulatory government processes and, for example, prisons. Therefore, while all of these projects may require external financing sources, some may receive more proceeds than others[139].

With the beginning of the large-scale invasion of Russia, significant social issues arose in Ukraine, the most urgent of which was the problem of internally displaced persons. According to the International Organisation for Migration, the total number of internally displaced persons in Ukraine was almost 7 million people as of 23 August 2022[140]. While neighbouring partner countries offer

[138] State Agency on Energy Efficiency and Energy Saving of Ukraine, Introduction of the green bond market in Ukraine, https://saee.gov.ua/sites/default/files/blocks/Prezentatsiya_green_bonds_lipen%CA%B9%202021%20%281%29.pdf

[139] Marcelo Giugale (2018). The Pros and Cons of Green Bonds, https://www.worldbank.org/en/news/opinion/2018/10/10/the-pros-and-cons-of-green-bonds

[140] International Organization for Migration, Ukraine Internal Displacement Report, 23 August 2022, https://displacement.iom.int/sites/g/files/tmzbdl1461/files/reports/IOM_Gen%20Pop%20Report_R8_ENG_updated%20logo%20%281%29.pdf

various schemes of material and financial support for people who have moved abroad, it is necessary to look for tools to attract internal and external private sources of financing for internally displaced persons, given the significant deficit of the state budget. According to available data[141], as of the end of June, 2.3 million internally displaced persons received financial assistance, and the total amount of these payments reached UAH 17 billion. One of the instruments for attracting funds to support internally displaced persons can be a type of social bonds. Proceeds received under such bonds can be used for the needs of internally displaced persons, in particular, for implementation of social projects for providing temporary housing, creating conditions for employment, providing educational opportunities for children, and supplying the necessary means of living.

SWOT: bonds aimed at achieving the SDGs

Strengths:

- Implementation of bond instruments that contribute to achievement of the SDGs, in addition to the effect in sustainable development, has a positive effect on the economy and business environment in the country.
- Bonds make it possible to attract financing from external sources in a short period of time, without reducing the amount of own financing of current operational activities.
- Issuing bonds contributing to achievement of the SDGs is an important signal to international financial institutions and contributes to the issuer's reputation.

Weaknesses:

- Achievement of key performance indicators for a project with assigned bonds is often difficult to measure.
- Cost of bonds for the issuer, in fact, is no less than classic loans. Interest rate of both a loan and a bond is based on the credit rating of the issuer.
- Some types of bonds are less interesting because of subject of the project to which they are assigned. That is, investors often prefer some projects over others.

Opportunities:

- Development of the bond market results in diversification of sources of proceeds. Thus, bonds of various types allow financing various projects related to the SDGs.
- Currently, out of four types of bonds contributing to achievement of the SDGs, only green bonds have been implemented in Ukraine. This indicates that there is potential to attract financing to other sustainable development projects with the use of other types of bonds.
- Types of social bonds can be relevant instruments for attracting funds to address social issues (such as supporting internally displaced persons) that arose as a result of the full-scale military invasion of Russia in Ukraine.

Threats:

- In the case of attracting financing under bonds aimed at achieving the SDGs, there is a risk of reallocating cash flows to projects that were not provisioned by these bonds.
- In the case of issuing state bonds aimed at achieving the SDGs, there is a risk of additional financial burden on the state in the event of change in circumstances affecting the project cost.

[141] BBC news resource with reference to Deputy Prime Minister Iryna Vereshchuk, https://www.bbc.com/ukrainian/features-62321972#:~:text=%D0%97%D0%B1%D1%96%D0%B9%20%D1%83%20%22%D0%94%D1%96%D1%97%22,%D0%9D%D0%BE%D0%B2%D1%96%D1%88%D0%B8%D1%85%20%D0%B4%D0%B0%D0%BD%D0%B8%D1%85%20%D0%BF%D0%BE%D0%BA%D0%B8%20%D1%89%D0%BE%20%D0%BD%D0%B5%D0%BC%D0%B0%D1%94

3.3 Loans aimed at achieving the SDGs

Taking into account the growth of ESG investments, the loan market has established certain principles intended to facilitate the procedure for granting loans aimed at achieving or taking into account the environmental, social and governance criteria of development. The key types of loans aimed at achieving the SDGs are the *green loans* and *sustainability linked loans.* After establishment of specific principles, loans, as an instrument for financing the SDGs, began to become more accessible to governments of most countries, including developing countries.

Green loans are a type of loans that are provided to finance only green environmental projects. The list of such projects covers renewable energy, energy efficiency, pollution control, natural resource management, biodiversity, green construction, etc.

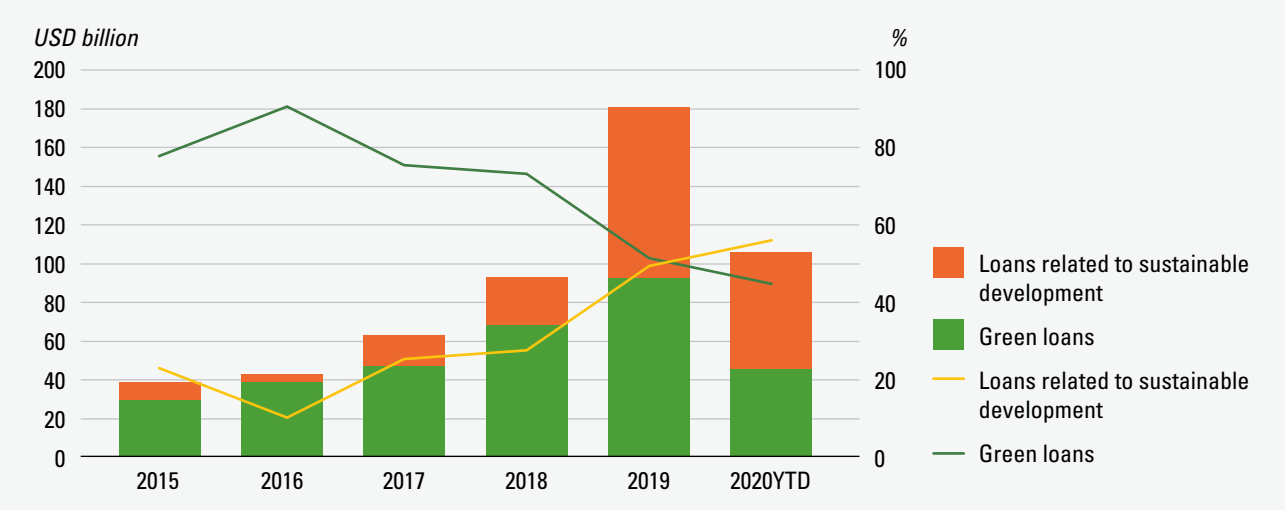
Sustainability linked loans, unlike green loans, are granted not to finance certain ESG projects, but to improve ESG indicators during implementation of a project in any other area. That is, when receiving a loan for a non-environmental project, one of the requirements is the achievement of pre-agreed key performance indicators (KPI) related to ESG. This is achieved due to reduction of margin in the course of achieving the set KPIs. Due to this approach, *sustainability linked loans* are more flexible than *green loans*[142].

By 2019, the share of *green loans* in the market significantly exceeded the share of *sustainability linked loans*. First of all, this is due to the fact that principles of green loans were established earlier, which provided a clearer understanding for borrowers. However, in 2019, after publication of principles of sustainability linked loans, the market trend changed, and their share became larger already in 2020. The main reason for this was distinct clarifications and a wider scope of sustainability linked loans. They have proven to be a good mechanism for companies developing and implementing a broader sustainability strategy, and are more appropriate for companies that do not create a significant environmental impact and therefore do not need green loans.

Principles of **green loans** are available at https://www.lsta.org/content/green-loan-principles/

Principles of **sustainability linked loans** are available at https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/

Figure 3.8: Global green and sustainability linked loans since 2015 to October 2020[143]



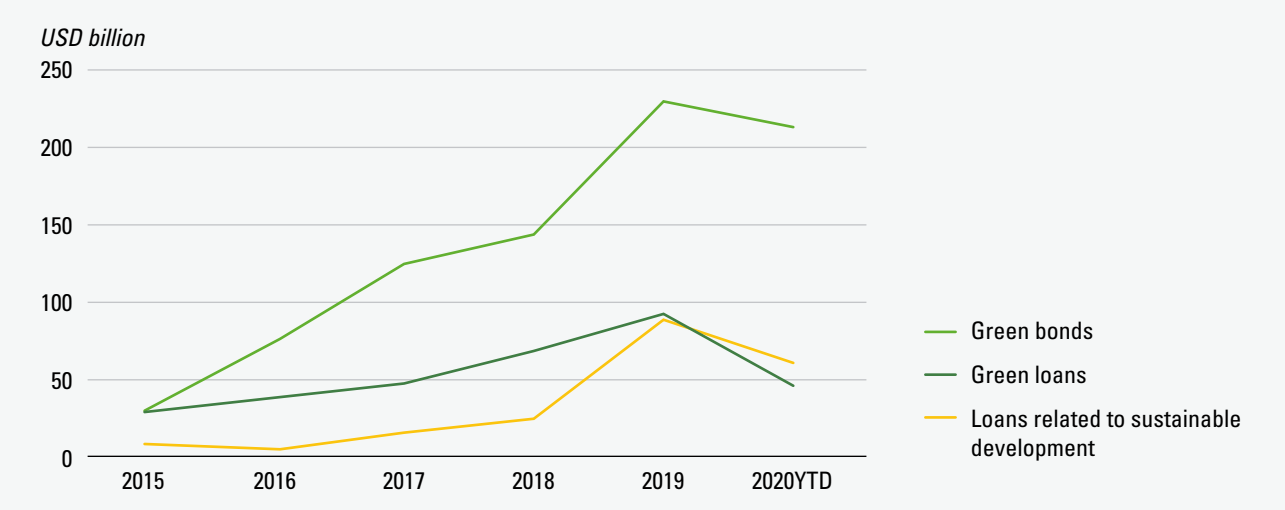
[142] Watson Farley & Williams (8 February 2022). Green And Sustainable Loans: A Short Explainer, https://www.wfw.com/articles/green-and-sustainable-loans-a-short-explainer/

[143] Source: Information from the official website of Nordea Bank, "The sustainable loan market: A snapshot of recent developments" (November 2020), https://www.nordea.com/en/news/the-sustainable-loan-market-a-snapshot-of-recent-developments – data by Nordea and Bloomberg

Publication of principles of sustainability linked loans facilitated their growth, legitimizing the market and adding credibility to the format, while encouraging lenders and borrowers. The faster growth in the popularity of sustainability linked loans can be compared to the slightly slower growth of the green loan market since 2018. Green loans and green bonds have a similar purpose, thus creating competition for green projects to be financed with green debt obligations – if a project is financed with green bonds, the same project cannot be financed with green loans.

Since green bonds are a public instrument, most organisations prefer to use a limited number of green projects to issue green bonds with the communication and branding opportunities they give. Then, to further promote a sustainable development strategy, such bonds can be supplemented with sustainability linked loans.

Figure 3.9: Global development of the green bonds, green loans and sustainability linked loans market since 2015 to October 2020[144]



Five sectors of the economy that are the largest borrowers in the green loan market receive about 90% of these loans, while this number for the same five sectors in the sustainability linked loans market is only 40%.

Table 3.1: 5 largest borrowing sectors by number of sustainable debt obligations[145]

Loans related to sustainable development		Green loans	
Utilities	14%	Renewable energy	47%
Transportation and logistics activities	9%	Energy production	23%
Chemical industry	7%	Utilities	8%
Other industry	6%	Real estate	6%
Food and beverage production	5%	Financial services	3%

Such distribution is explained by the fact that *green loans* are limited to the relevant sectors, which is specified in the principles of green loans, as well as in the terms and conditions of lenders. *Sustainability linked loans* are granted to a more diversified range of sectors. The format of such loans does not require identification of projects to be financed, but instead allows all organisations to assume commitments for implementation

[144] Source: Information from the official website of Nordea Bank, "The sustainable loan market: A snapshot of recent developments" (November 2020), https://www.nordea.com/en/news/the-sustainable-loan-market-a-snapshot-of-recent-developments – data by Nordea and Bloomberg

[145] Source: Information from the official website of Nordea Bank, "The sustainable loan market: A snapshot of recent developments" (November 2020), https://www.nordea.com/en/news/the-sustainable-loan-market-a-snapshot-of-recent-developments – data by Nordea and Bloomberg

of the SDGs associated with the terms and conditions of these loans[146].

Despite their versatility and targeting achievement of SDGs, sustainable loans have certain challenges for both the borrower and the lender. Two-way pricing is gaining popularity in sustainable *loan* markets. If a borrower fails to fulfil its obligations, loan margin may increase (considering that the main incentive for fulfilling obligations is to reduce the margin). At the same time, a creditor that implements two-way pricing may incur reputation risks if suppliers fail to fulfil their obligations, as there is a question of possibility to gain profit from borrower's failure to meet SDG targets. That is why it is important to document everything in such a way to ensure that the tool promotes proper behaviour in achieving the SDGs, rather than targets penalties for non-compliance[147].

An additional challenge in the case of *sustainability linked loans* is the lack of standardized documentation and processes for their issuance. That is why there is an urgent need to build understanding and expand the knowledge of lenders about potential benefits of introducing this type of loans. Given the positive growth trends of sustainability linked loans, expanding the knowledge base about them is inevitable, which, in turn, will lead to ease of transactions and their popularization.

Despite the challenges of *sustainability linked loans*, the actualization and spread of ESG encourages organisations to review their business models and implement or expand sustainable development strategies, further incorporating them into financial strategies. Sustainability linked loans enable companies and organisations of all sizes to access sustainability linked financing, whether through large syndicated financing or a simple bilateral agreement. In order for borrowers to be able to take advantage of this type of loans, they need a proven, consistent and thorough sustainable development strategy. This necessity is explained by the fact that when working on a loan, the borrower must inform the lender about its strategy, policies and goals to be achieved. Thus, the borrower must assess which goals are appropriate and meaningful for the loan, thereby improving its ESG performance[148].

In November 2021, the National Bank of Ukraine published the Policy on the Development of Sustainable Financing. The purpose of this document is to form of a holistic vision of the key principles of development of sustainable financing in Ukraine and actions of the National Bank of Ukraine necessary for its implementation, taking into account ensuring consistency and adaptation to changes in both the banking system and the activities of non-banking financial institutions that will contribute to financial stability. In particular, a roadmap for implementation of the Policy on the Development of Sustainable Financing provides for:

- implementation of ESG factors in the corporate management system of banks from the beginning of 2022 and from the end of 2024 for non-bank financial institutions;
- environmental and social risk management – the environmental and social risk management system will be integrated into the general risk management system of financial institutions, in particular from the end of 2022 for banks and from the end of 2024 for non-bank financial institutions;
- assessment and selection of projects to be financed taking into account their role in achieving sustainable development – when selecting projects to be financed, financial institutions will be required to assess their impact on the environment, as well as disclose information on technical criteria and classifications (taxonomy) of economic activity, ESG-indicators used to assess and select such projects; the National Bank will develop recommendations for disclosure of such information by the end of 2023 for banks and by the end of 2024 for non-bank financial institutions;

[146] Nordea Bank (29.10.2020). The sustainable loan market: A snapshot of recent developments, https://www.nordea.com/en/news/the-sustainable-loan-market-a-snapshot-of-recent-developments

[147] Stephenson Harwood (11.03.2020). Sustainability-linked loans and green loans in the real estate finance market, https://www.shlegal.com/insights/sustainability-linked-loans-and-green-loans-in-the-real-estate-finance-market

[148] Corrs Chambers Westgarth (06.10.2021). Sustainability linked loans: key considerations for borrowers and treasurers, https://www.corrs.com.au/insights/sustainability-linked-loans-key-considerations-for-borrowers-and-treasurers

- obligation for financial institutions to disclose information about the sustainable nature of their activities – financial institutions will have to disclose information about the extent to which their activities are sustainable, about their impact on the environment, and about reputation and financial risks arising in connection with impact of their activities on the environment; the National Bank will develop recommendations for disclosure of such information by the end of 2023 for banks and by the end of 2024 for non-bank financial institutions; in addition, the regulator will carefully monitor the fulfilment of these requirements by banks from the beginning of 2024 and from the beginning of 2025 by non-bank financial institutions[149].

Loan market in Ukraine is represented by "green" loans and "warm" loans provided to businesses and individuals by a number of banks, most of which are state-owned (for example, Ukrgasbank, Oschadbank). In general, this market is just starting its development in Ukraine and needs implementation of policies, regulatory documents and standardized documentation.

"Green" loans in Ukraine are represented by several loan programmes, mostly aimed at construction of renewable energy sources, both private and industrial power stations. The programme includes providing loans with preferential rates that are much lower than in other loan programmes. Thus, it is an opportunity for entrepreneurs to attract financing for a renewable energy project that contributes to achievement of climate neutrality, and the private sector gets an opportunity to improve its energy efficiency and awareness regarding the rational consumption of electrical energy.

The "warm" loans program was developed by the State Agency on Energy Efficiency and Energy Saving and launched in October 2014. The programme is aimed at increasing energy efficiency in private homes of citizens, which directly contributes to achievement of SDG No. 7 "Renewable energy" and SDG No. 12 "Responsible consumption". Under this programme, an individual can receive reimbursement of part of the loan amount at the expense of the state budget:

- 20% of the loan amount (but not more than UAH 12,000) for the purchase of non-gas/non-electric boilers for individuals;
- 35% of the loan amount (but not more than UAH 14,000) for the purchase of energy-efficient equipment/materials for individual owners of private houses[150].

[149] National Bank of Ukraine (2021). Policy of the National Bank of Ukraine on the Development of Sustainable Financing until 2025, https://bank.gov.ua/ua/news/all/politika-natsionalnogo-banku-ukrayini-schodo-rozvitku-stalogo-finansuvannya-na-period-do-2025-roku

[150] State Agency on Energy Efficiency and Energy Saving of Ukraine(2021). State support for energy saving: "warm loans" programme, https://saee.gov.ua/uk/consumers/tepli-kredyty

SWOT: loans aimed at achieving the SDGs

Strengths:

- Organisations and companies have the opportunity to receive preferential financing for their projects, if such projects are aimed at overcoming or reducing their impact on the environment, or by making a commitment to achieve the SDGs.
- Sustainability linked loans, unlike green loans, do not require the lender to implement a specific environmental project. Therefore, sustainability linked loans enable the borrower to finance any projects and needs without requiring to achieve certain ESG indicators.
- Sustainability linked loans encourage organisations and companies to develop high quality sustainability strategies and improve their ESG performance.

Weaknesses:

- Lack of a standardized approach and regulatory documents for sustainability linked loans creates additional difficulties for implementation of this type of loans in practice.

Opportunities:

- The National Bank of Ukraine plans to significantly develop the sustainable financing market in Ukraine, and green loans and sustainability linked loans can be an effective part of this market on the way to strengthening the economy.
- The process of preparing for receiving any SDG loans forces the borrower to deepen their knowledge of ESG, which in the future can positively affect achievement of the SDGs by a company or organisation beyond this relationship.

Threats:

- In case of failure to fulfil the assumed obligations, the borrower has the risk of increasing its own costs for the loan, and the creditor may face reputation risks.

Chapter 4.
Conclusions and recommendations

Conclusions

The full-scale war of Russia against Ukraine has resulted in significant infrastructural losses, social challenges, and widespread economic damage. According to estimates of the NBU, the losses of physical capital caused by the destruction of enterprises, housing and infrastructure reached 100 billion US dollars as of early May 2022, which is the equivalent of 50% of Ukraine's GDP in 2021. The need to restore the Ukrainian economy and social protection of victims of the war means that Ukraine needs to find additional sources of financing for development, as well as to introduce new instruments for attracting funds. While some projects for the recovery of Ukraine's economy will directly contribute to achievement of the SDGs (for example, construction of schools, hospitals, renewable energy facilities), other projects must be implemented in such a way that they meet the criteria of sustainable development (for example, construction of energy-efficient housing, installation of industrial equipment with less harmful impact on the environment).

Mobilization of domestic public resources is considered a key source for financing the Sustainable Development Goals. However, the uncertainty about the scale of the macroeconomic consequences of the war makes it a problem to attract additional tax and non-tax revenues to the budget to finance the SDGs. At the same time, there is a tendency in the world to increase the use of private financing to achieve sustainable development. The consequences of the war also make the investment climate in Ukraine unfavourable. However, in the future, it is extremely important to mobilize private foreign and domestic sources of revenue to finance sustainable development. Official development assistance and other official financial flows to Ukraine are a significant source of development financing. It is believed that more mature economies should move away from dependence on international assistance, however, in the context of overcoming the consequences of the war for Ukraine, this type of assistance, especially on a grant basis, will be very relevant. It should be noted separately that national and international non-governmental organisations play an important role, even though they are much smaller in volume as compared to other sources. The specific nature of activities of non-governmental organisations enables them to quickly and effectively direct cash flows to areas with the most pressing and unresolved social issues.

The volume and efficiency of revenue sources can be increased with introduction of innovative financing instruments. One such instruments used in Ukraine is the public-private partnership mechanism aimed to attract private investment in construction of state-owned facilities. Bonds aimed at achieving the SDGs have been a common instrument for financing sustainable development for several years around the world. Such bonds include green bonds, social bonds, sustainability bonds and sustainability linked bonds. Use of such instruments in Ukraine is not yet common. The market of green loans and sustainability linked loans began to actively form after the publication of the key principles of their development (2018 and 2019, respectively). In Ukraine, this market in its classic sense has not yet been launched, similar instruments are "green" loans and "warm" loans, which have been in use since 2014.

Recommendations

The list of authorities whose activities may be related to the recommendation:

- Cabinet of Ministers of Ukraine
- Ministry of Economy of Ukraine
- Ministry of Finance of Ukraine
- National Bank of Ukraine
- State Property Fund of Ukraine

- In order to effectively finance the Sustainable Development Goals, Ukraine should strive to *diversify sources of financing* and gradually move away from significant reliance on international official assistance. Instead, it is recommended to ensure more active involvement of private financial flows, such as foreign direct investment and own investment of domestic business, as well as funds raised by various national and international non-governmental organisations. At the same time, it is worth directing efforts to develop mechanisms that will allow attracting both public and private funds *with the use of various existing and new financing instruments*, such as public-private partnerships, as well as bonds and loans aimed at sustainable development and the SDGs.

The list of authorities whose activities may be related to the recommendation:

- Cabinet of Ministers of Ukraine
- Ministry of Economy of Ukraine
- Ministry of Finance of Ukraine
- State Tax Service of Ukraine, State Customs Service of Ukraine
- Anti-corruption agencies (National Anti-Corruption Bureau, National Agency for Prevention of Corruption, etc.), Antimonopoly Committee of Ukraine
- Judicial authorities of Ukraine

- In order to attract financing flows that can be used to achieve the SDGs, *the attractiveness of the business environment in Ukraine and trust in the state* remain the primary factor. Thus, attraction of foreign direct investment depends on the general economic growth of the national economy, investment climate, tax burden on business, consistency and predictability of state policy. An important factor is combating corruption and completion of judicial reform, which will make it possible to resolve disputes transparently and fairly and ensure that the rights of business partners are respected. Similarly, the volume and terms of attracting funds under bonds aimed at the SDGs largely depend on the country's reputation and investment climate. Therefore, first of all, in order to increase Ukraine's access to various sources and instruments of development financing, the state should implement comprehensive economic and anti-corruption reforms that will strengthen trust in the authorities and increase Ukraine's investment attractiveness.

The list of authorities whose activities may be related to the recommendation:

- Ministry of Finance of Ukraine
- National Securities and Stock Market Commission of Ukraine
- National Bank of Ukraine

- In the context of using business investment for sustainable development and achieving the SDGs, it is important to form a full-fledged *stock market* in Ukraine. Although there are stock exchanges in Ukraine, the de facto stock market does not operate in full. Operation of stock exchanges in Ukraine is currently ineffective due to shortcomings in regulation of the stock market, imperfect legal framework, and low awareness of potential market participants. Development of the Ukrainian stock market is an important factor on the way to promotion of investment and market transformations of the Ukrainian economy. Moreover, mature stock markets play an important role in *promoting consideration of ESG factors (environmental, social and governance aspects) when making investment decisions* and, accordingly, providing investment to those companies that contribute as much as possible to achieving the SDGs. For example, foreign stock exchanges encourage companies to disclose non-financial information about ESG aspects of their operations so that they can satisfy the growing attention of investors to sustainability issues. Thus, in 2017, the London Stock Exchange issued a guidance on disclosure of ESG information, and encourages companies to report according to standards of the Task Force for Climate-related Financial Disclosures (TCFD). Formation of

a full-fledged stock market in Ukraine will both contribute to increasing attention of all participants of the stock market to issues of sustainable development and stimulate the development and spread of new financial instruments, such as sustainability bonds.

The list of authorities whose activities may be related to the recommendation:

- Cabinet of Ministers of Ukraine
- Ministry of Economy of Ukraine
- Public-Private Partnership Agency

- In the context of SDG financing, the state should take responsibility for *promoting priorities in the area of sustainable development* and encouraging the business community to pay more attention to sustainable development and ESG aspects in their business decisions. First of all, it is up to the state to take into account the SDGs in strategic documents at the national and regional level, determine national development priorities and potential sources of their financing, identify gaps in the financing of the SDGs and those areas of sustainable development that need the most attention. So, for example, in order to make the use of official international assistance more targeted, it would be appropriate to specify priority development goals during the development of strategic documents that can be implemented at the expense of international technical and financial assistance. In addition, through its political decisions, the state can direct funds from foreign direct investment or financing under the public-private partnerships to those sectors and types of activities that will contribute the most to the achievement of the SDGs. For example, in 2019, the UN Economic Commission for Europe proposed the concept of "People-first PPP", which more effectively helps achieve development goals in public-private partnership projects. Ukrainian legislation regulating PPP corresponds to this concept only partially and requires adaptation, as well as development of procedures, mechanisms and methodological materials.

The list of authorities whose activities may be related to the recommendation:

- Cabinet of Ministers of Ukraine
- State Regulatory Service of Ukraine
- Ministry of Energy of Ukraine
- Ministry of Environmental Protection and Natural Resources of Ukraine

- The government's role in promoting interest in sustainable development among business includes creation of *unified, transparent and clear regulatory requirements for disclosure of information about results of companies' activities in ESG areas* (environmental, social and governance areas). On the one hand, it will make it easier for investors and various stakeholders to access information about the ways the business manages ESG aspects and the results it achieves in the areas of sustainable development, how it takes into account the long-term risks and opportunities that arise as a result of climate change, various social challenges, etc. On the other hand, the need for constant systematic reporting pushes business to a more mature attitude to the areas of sustainable development, development of responsible business policies and sustainable development strategies, and establishment of public goals and tasks in the areas of ESG. In this context, Ukraine has already introduced mandatory monitoring and reporting of greenhouse gas emissions (the Law of Ukraine "On Principles of Monitoring, Reporting and Verification of Greenhouse Gas Emissions") and mandatory reporting of management information (management report in accordance with the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine"). These requirements are the adapted provisions of the relevant EU legislation. In order to effectively implement these regulatory requirements, the state is responsible for providing businesses with *transparent, comprehensive, timely and understandable explanations* on organisational issues of fulfilling these requirements, methodological recommendations, etc.

The list of authorities whose activities may be related to the recommendation:

- Cabinet of Ministers of Ukraine
- Verkhovna Rada of Ukraine
- Sector ministries

- In the context of promoting the principles of responsible business, the role of the state is to effectively *adapt Ukrainian legislation to European requirements*. In the EU, there are requirements for mandatory disclosure of broad information on ESG aspects for business and financial market participants – these are the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR), which set out the requirements for disclosure of non-financial information on a par with financial information. Given Ukraine's status as a candidate for EU accession, it is necessary to integrate national legislation into EU legislation as systematically as possible, taking into account national characteristics and the existing legal framework. In addition, accessible and easy-to-understand explanations to businesses, investors and other stakeholders regarding all possible financing mechanisms and instruments, including explanations of all procedural features, is an important component of the adaptation process.

The list of authorities whose activities may be related to the recommendation:

- Ministry of Economy of Ukraine
- State Statistics Service of Ukraine

- An important role in the effectiveness of sustainable development financing is played by systematic *collection of comprehensive statistical data related to the SDGs and their publication in open access for all stakeholders*. Such data should include information on national development priorities, the progress of fulfilling Ukraine's obligations regarding the SDGs, the amount of financing of sustainable development projects at the expense of budget funds and other sources, on issuance of sustainability bonds and use of sustainability loans instrument, etc. Availability of such data will help identify gaps and direct financial flows to those social and environmental areas that require greater investment. As for the data on the SDG financing, the state should, first of all, monitor contribution of the budget projects to progress in implementation of the SDGs (under introduction of the SDG budgeting). Moreover, it may be appropriate to create a unified information base that will consolidate data on all available flows of international development assistance and other official financial flows to Ukraine, as well as projects implemented in Ukraine under various types of international assistance. In addition, it would be advisable to establish an exchange of information between the state bodies and non-governmental organisations regarding the gaps in financing of socially important areas in order to focus actions of non-governmental organisations in the most necessary directions.

The list of authorities whose activities may be related to the recommendation:

- Cabinet of Ministers of Ukraine
- Ministry of Finance of Ukraine
- Sector ministries

- Presence of *comprehensive and long-term strategic development planning, as well as integration of the SDGs into the budget process* remains one of the key aspects of attracting, effective and rational use of existing and potential financial flows. The government, together with the ministries, needs to establish and synchronize the planning process in all strategic documents and action plans, unify the hierarchy of strategic documents. In particular, it is important to harmonize the process of strategic planning with budget processes and provide for the possibility of monitoring the effectiveness of budget funding of the SDGs. Also, in order to improve the development financing process, it is necessary to start using the mechanism of the Integrated National Financing System (INSF) of the SDGs designed to help both mobilize resources from all available sources and develop better methods for managing all financial flows. These measures will help build integrated and structured approaches to mobilization of financial resources to solve issues of sustainable development in accordance with the formed strategic plans.

EY | Assurance | Tax | Transactions | Advisory

Information about EY

EY is an international leader in audit, taxation, transaction support and consulting. Our knowledge and quality of services we provide contribute to strengthening of trust and confidence in the markets of various countries around the world. We are forming a team of outstanding leaders under whose management our team fulfils the commitments we have taken. Thus, we make a significant contribution to improving the business environment for the benefit of employees, customers and society as a whole.

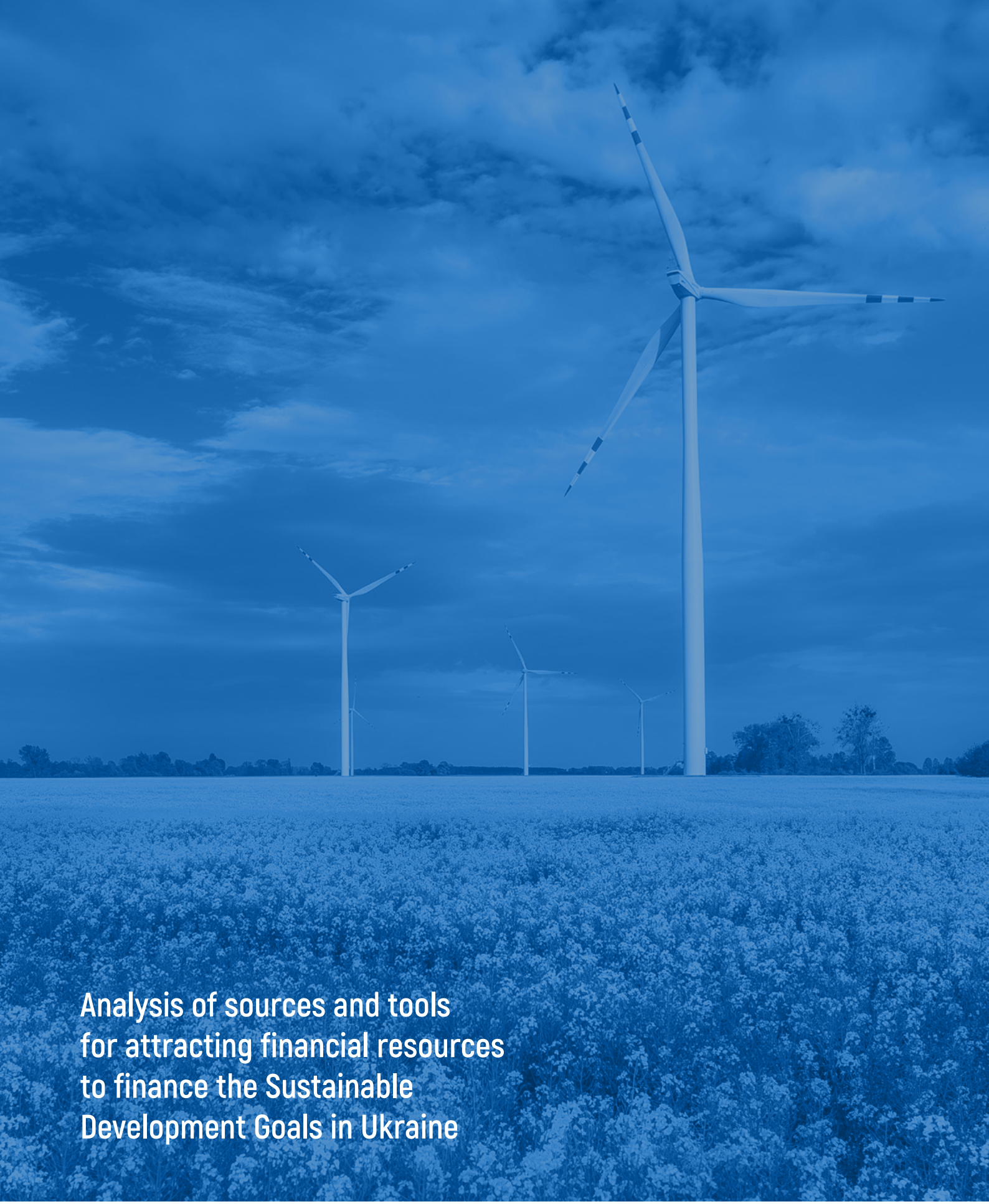
The name EY refers to a global organisation and may refer to one or more companies within Ernst & Young Global Limited, each of which is an individual legal entity. Ernst & Young Global Limited is a legal entity incorporated under UK law, a company limited by shares, which does not provide services to clients.

Learn more on the website: ey.com.

On the Joint Program "Promoting Strategic Planning and Financing for Sustainable Development on National and Regional Level in Ukraine":

The programme implements comprehensive measures to support the Government of Ukraine in order to develop joint approaches to managing financial flows and the implementing the reforms related to financing of the 2030 Agenda for Sustainable Development. Due to cooperation at the national and subnational level, the Joint Programme aims to develop better methods of managing existing and potential financial flows, as well as coordinate the area of use of resources that can be attracted with long-term development priorities and achievement of the SDGs in Ukraine. Facilitating and supporting creation of the Integrated National Financing System Framework (INFF) of the Sustainable Development Goals is a key objective of the programme that will improve interrelation between the implementation of public policy and the ongoing decentralization reform.

The programme is financed by the UN Joint SDG Fund.



Analysis of sources and tools for attracting financial resources to finance the Sustainable Development Goals in Ukraine

UNITED NATIONS UKRAINE

JOINT SDG FUND

Office on Sustainable Development Goals Implementation

UNDP