COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN UKRAINE

Doubling Down on Reform: Building Ukraine's New Economy

Executive Summary

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EXECUTIVE SUMMARY

Ukraine is at a critical juncture. In a context of both legacy and emerging challenges, including an unprecedented global pandemic, the government of Ukraine has an opportunity to unleash the potential of the country's private sector to build the foundations of a new economy that is more dynamic and equitable. The government has embarked on an ambitious reform agenda, reaffirming its commitment to strengthen institutional governance, unshackle market forces, and fully insert the country in global trade and investment flows. The government can build on such efforts to ensure that the private sector will be a key driver of Ukraine's post-crisis economic growth.

The present Country Private Sector Diagnostic (CPSD) will help inform the Government of Ukraine's reform efforts, especially those leveraging the power of the private sector to boost economic growth and improve the lives of all Ukrainians. The CPSD addresses knowledge gaps in sectors that are critical to economic growth and in which private sector participation is currently hampered by legal, regulatory, or other constraints. While focusing on a subset of policy actions through which reform can unlock private sector investment and growth, the report also addresses the need for change within the private sector itself. The CPSD describes cross-cutting constraints that affect the private sector and underscores the imperative to address long-standing governance and structural bottlenecks. In addition, the report takes a detailed look at three sectors for which public policy actions and active involvement by the private sector could leverage the country's natural and human capital endowments and exploit its comparative advantage. The three sector assessments expand and build on extensive analytical work already undertaken inside and outside the World Bank Group (WBG) underlining implementable policy actions to (a) support the swift implementation of the recently approved land reform and promote investments in climate-smart technologies to raise agricultural productivity and exports; (b) boost exports and ramp up the attraction of proactive foreign direct investment (FDI) to increase participation in European manufacturing value chains; and (c) leverage private sector solutions and investment to enhance efficiency in the provision of health services.[1]

COUNTRY CONTEXT

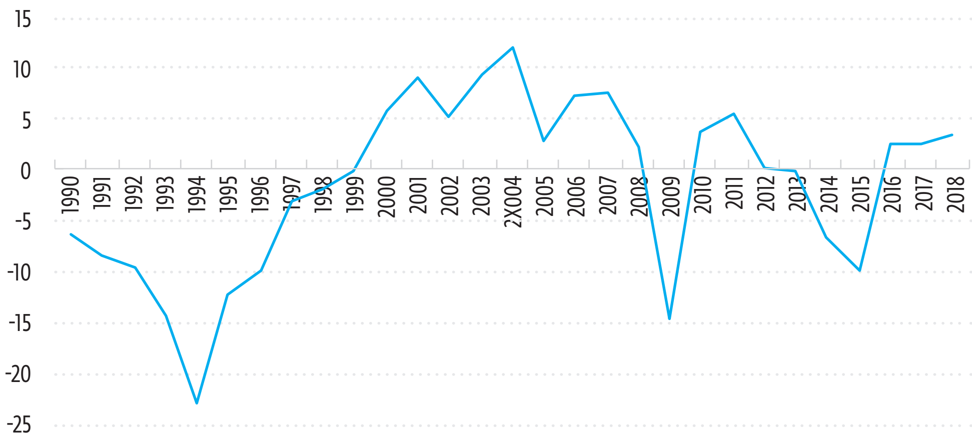
Ukraine has taken important steps to improve the business environment in which the private sector operates. Recent reforms include improvements in dealing with construction permits, making it easier to obtain access to electricity, registering property, protecting minority investors, improving access to credit, and trading across borders. The start of the provisional application, in January 2016, of the Deep and Comprehensive Free Trade Area (DCFTA), which forms part of the Association Agreement between Ukraine and the European Union (EU) signed in June 2014, has given further impetus to—and underscored the importance of—the modernization agenda.

Despite such gains, Ukraine's transition into a market-driven economy remains incomplete, holding back economic growth. Ukraine has experienced a dramatic transformation since independence from the Soviet Union, but remaining elements from the old economic system and powerful vested interests represent a drag on economic growth. The state continues to be an outsized economic player and retains control of a substantial share of productive assets.[2] In addition, while important improvements were achieved in the business climate, Ukraine stills trails its neighbors on resolving insolvency, getting electricity, and trading across borders, which are relevant constraints to the growth of private sector investment.

Indeed, Ukraine's economic growth has been modest and volatile and needs to be accelerated in a sustainable way to converge to the income levels of the European Union and of other peers that had similar levels at the beginning of the 1990s. After the strong economic contraction of the 1990s, the average annual gross domestic product (GDP) growth rate was 2.2 percent over the 2000–2018 period. Not only has GDP growth been modest, but it has also been very volatile, with strong expansions followed by deep recessions and marked macroeconomic instability. In the past four years, GDP growth has been more stable and averaged 3 percent. From 2001 to 2008, the country experienced an economic expansion, growing at 7 percent per year, mostly driven by favorable external conditions and positive terms of trade. The global financial crisis brought the expansion period to an end, revealing the fragile nature of the growth experienced over the previous seven years and the need to accelerate the pace of reforms to promote structural transformation and sustainable growth. Economic recovery after the crisis came to a halt with the outbreak of the conflict in eastern Ukraine (2014–15) that followed the Euromaidan revolution, with a cumulative contraction of 16 percent over the period (figure ES.1). During 2014–15, the hryvnia depreciated by 70 percent, the fiscal deficit widened, and public debt nearly doubled. The financial system was hit by an outflow of deposits and an increase in the number of nonperforming loans (NPLs). The authorities responded shortly after the crisis with timely and decisive reforms that helped stabilize the economy and address the structural imbalances, and the economy began to recover in 2016. However, the economic and political crises caused the deterioration of poverty indicators, losing the poverty-reduction momentum gained during the years of high economic growth. At the current average GDP growth rate of 3 percent, it would take Ukraine 50 years to reach Poland's current income levels—a stark call to accelerate the transition from an old-growth model based on legacy industries, commodity exports, and a predominant focus on the Commonwealth of Independent States (CIS) market.

Since 2015, the economy has shown positive signs of structural realignment, but important challenges remain. Improving productivity and increasing investment in the local economy remain critical elements to accelerate growth. Debt overhang, a legacy of the global financial crisis, continues to cripple private and state-owned enterprises, especially those exposed to currency risk during the dramatic depreciation of the hryvnia (World Bank Group 2019a). The country has been unable to compete with its neighbors in FDI attraction, occupying the last position in FDI stock per capita among emerging European countries.[3] In parallel, the increasing public sector's demand for domestic credit has crowded out credit for private enterprises, stifling real sector activity (World Bank Group 2019a). Slower growth in the supply of labor, resulting from a demographic slowdown and emigration to neighboring countries, further increases the importance of boosting productivity and capital accumulation.

FIGURE ES.1 UKRAINE GROWTH IN GROSS DOMESTIC PRODUCT (%), 1990–2018



Source: World Bank, "World Development Indicators."

Accelerating economic growth will depend on the implementation of key structural reforms and the consolidation of macroeconomic stability to foster investment and productivity growth. Long-running structural challenges have significantly lowered the potential growth rate of the economy. For any sustained growth acceleration, supply side reforms—such as those highlighted by the CPSD—are needed. Otherwise, the economy runs risks of overheating very quickly as output gaps will close very quickly in the rebound. GDP growth reached 3.2 percent in 2019, driven by agriculture and sectors dependent on domestic consumption, while manufacturing and investment growth remained weak. Growth could be accelerated up to 4 percent if progress is achieved in three key areas: (a) attract private investment into tradable sectors by establishing a transparent market for agricultural land, demonopolizing key sectors, and strengthening antimonopoly policy and enforcement, privatizing state-owned enterprises, and tackling corruption; (b) increase the efficiency and growth of bank lending to the corporate sector by completing the reform of state-owned banks and reducing NPLs; and (c) safeguard macroeconomic stability to continue reducing inflation, interest rates, and public debt (World Bank 2019b).

The COVID-19 outbreak poses additional challenges to the goal of achieving higher and more sustainable economic growth. Indeed, COVID-19 will abruptly interrupt the recent growth trend experienced by the country. Before the pandemic, GDP growth projections suggested a gradual acceleration of GDP growth rates from 3.7 percent in 2020 to 4.2 percent in 2022 (World Bank 2020b). At present, COVID-19 is affecting Ukraine through multiple channels. First, the lockdown measures to curb the epidemiological curve have hit economic activity hard. Between February and May 2020, industrial production dropped by 32 percent and retail sales by 17 percent. Second, the global economic slowdown and the disruption of trade and global value chains are expected to affect the country's manufacturing exports, while the commodity price shock will also shrink the country's agricultural exports. Third, COVID-19 also found the country in a still fragile macroeconomic position, which, in a context of heightened risk aversion in global financial markets, will undermine the government's ability to adopt countercyclical fiscal and monetary policies. Indeed, the outbreak has substantially worsened Ukraine's growth prospects in the short term. According to the World Bank's Global Economic Prospects of June 2020 (World Bank 2020c), the country's GDP will contract by 3.5 percent and is expected to grow by 3 percent in 2021 and 4 percent in 2022.[4]

Prospects for a quick and robust rebound in economic growth from the COVID-19 economic downturn are tied to increasing the role of the private sector in the economy. While the COVID-19 pandemic imposes a heavy toll on the country's economic growth prospects, it also opens opportunities for Ukraine's private sector. COVID-19 found Ukraine with limited fiscal space to attenuate its negative impacts. Related emergency expenditure pressures in health, social protection, and support to firms will likely increase government fiscal deficits and debt and further squeeze the fiscal space. In a context of reduced room to maneuver for government stimulus policies, expanding the contribution of the private sector to economic growth becomes critical for a quick growth recovery.

The CPSD assesses options for fostering the development of the private sector in three sectors of the economy that can facilitate a swift recovery in economic growth. The recommendations presented by the CPSD would help mitigate some of the negative impacts of COVID-19 and support higher and more sustainable economic growth. In agriculture, global markets for staples remain well supplied and food prices remain relatively stable, with projections suggesting sufficiency into 2020–21 due to good harvests this year (World Bank 2020b). However, risks to food safety remain in many countries because of widespread income losses and disruption in domestic food supply chains. Therefore, in the short term, country priority needs to to contain hindrances to the production, distribution, and logistics of food, taking actions such as ensuring access to inputs to farmers for the next season and promoting innovations to increase future productivity. Ukraine should leverage this moment to further strengthen its position in agriculture by supporting the development of land markets and promoting innovative climate-smart technologies that could improve agricultural productivity.

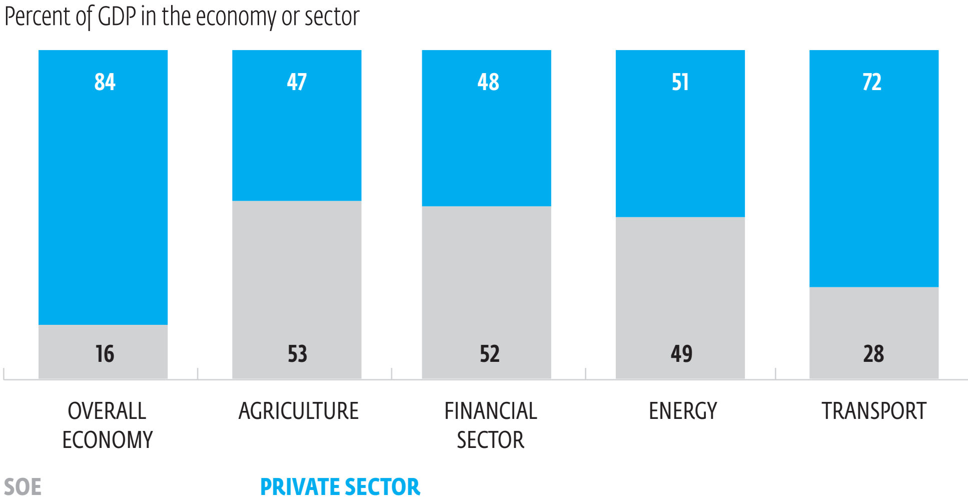
At the same time, the disruption of global value chains (GVCs) caused by the extensive lockdown and travel restrictions has led some observers to argue that the need to increase the resilience of global production networks will lead to efforts to reduce an excessive geographic concentration of suppliers and to diversify the location of intermediate production activities. Near-shoring and the potential reconfiguration of GVCs could potentially create opportunities for Ukraine and other countries in Europe's periphery, although there is at present a high level of uncertainty about the ultimate shape the GVCs will adopt in a post-COVID-19 global scenario. In any case, expanding Ukraine's participation in GVCs and increasing domestic value added are policy objectives that continue to be critical to increase productivity and accelerate growth. This changing environment further provides an opportunity for Ukraine to accelerate the participation of the private sector in provision of health care services, including fast-tracking policies and strategies for use of e-health services.[5] Given the spotlight on the ability of the countries' health systems to address the challenges brought by COVID-19, the increasing participation of the private sector in the provision of health care services seems to be instrumental to leveraging the ability of these systems to response quickly and efficiently to future health shocks and to improve the quality of health care services overall. Increasing pressures on government health budgets related to the aging of the population are now exacerbated by COVID-19. In a context of hard budget constraints and increasing health expenditure trends, efficiency gains in service delivery and the increasing role of private sector investments and management in the health care system are more critical than ever.

KEY CROSS-CUTTING CONSTRAINTS FOR PRIVATE SECTOR DEVELOPMENT

Lack of competition in key markets and a large state footprint inhibit private sector activity in Ukraine. Increasing private sector investment and attracting more FDI will require an improved competition environment, the elimination of monopolies in contestable sectors, and a commitment to strengthen the rule of law. State-owned enterprises (SOEs) continue to represent a significant share of Ukraine's economy and play a dominant role in sectors such as transport, utilities, energy, and finance (figure ES.2). SOEs are present in 28 economic sectors, and their market share exceeds 50 percent in at least half of them (Pop and others 2019), stretching beyond network industries in which governments traditionally play an active role. Together, SOEs and politically connected firms are the main players in all productivity-enabling sectors of the Ukrainian economy. SOEs and politically connected firms are less productive and exhibit weaker corporate governance than unconnected private firms. Anticompetitive conditions result in additional costs and lower the expected returns on investment, making the Ukrainian market less attractive for both foreign and domestic firms (Smits and others 2019). Only a small number of strategic SOEs should remain under state ownership, and those that do remain require further improvements in their governance, including the appointment of independent supervisory boards (Smits and others 2019).

Improvements to the following cross-cutting factors would be critical to enabling a more competitive environment: (a) ensure a competitively neutral environment that minimizes the policy-based advantages of SOEs and politically connected firms; (b) improve the predictability, consistency, and transparency of the regulatory framework, both in principle and in its application; and (c) support the development of robust, independent market institutions.

FIGURE ES.2 ESTIMATED SHARE OF STATE-OWNED ENTERPRISES IN THE UKRAINE ECONOMY, 2016



Source: World Bank staff based on data from Ukraine's Ministry of Economic Development and Trade.
Note: GDP = gross domestic product; SOE = state-owned enterprise.

A weak financial sector has contributed to deficient financial intermediation and limited access to finance. Efficient financial intermediation and credit growth have been constrained by a high share of nonperforming loans in the system, the legacy of the global financial crisis, and the capture of state-owned banks (SOBs) by strong vested interests. The credit market could be reactivated with the implementation of regulations in place that require write-offs of fully provisioned NPLs. Measures to clean up NPLs should be coupled with reforms to strengthen the corporate governance of SOBs and the corporate insolvency framework. Steps to modernize SOBs and guarantee their independence include the approval of the state-owned bank law in 2019, intended to strengthen the independence of bank management. In May 2020, the Ukrainian Parliament approved legislation to strengthen the bank resolution framework.

Inadequate infrastructure and energy market distortions hinder competitiveness. Ukraine ranks poorly on quality-of-infrastructure indicators across most sectors, with the exception of railways. Despite recent improvements in the regulatory framework, private sector participation remains limited and is a key constraining factor in two of the three sectors that are the focus of this report. Improving the performance of the transport sector is paramount to strengthening the competitiveness of Ukrainian agricultural and manufacturing exports, attracting FDI, and increasing the country's participation in GVCs. Opportunity areas include the adoption of international rules around licenses and registration, measures to improve operational efficiency in ports, use of increased capacity of inland waterways, and investments in multimodal logistics centers and advanced information technology (IT) systems. Similarly, the electricity sector is inefficient and suffers from declining reliability and low investment. Positive signs of improvement in these areas include the government's expressed commitment to address ownership of gas transit and production by 2020. Moreover, the plan to unbundle the gas sector and establish a wholesale electricity market is expected to increase efficiency, sector transparency, and competition, and to promote the awareness and engagement of energy users. More needs to be done to build on these improvements if the country is to realize its potential. Opportunities exist for public-private partnerships (PPP) across infrastructure sectors and health. Further, while the government is strengthening the regulatory framework around PPPs, there continue to be several issues that need addressing—that is, lack of cohesive sector policies and regulations, lack of a central registry of PPPs, lack of capacity to implement and manage projects, and lack of transparent monitoring of the fiscal implications of PPPs.

Ukraine has achieved higher educational outcomes than its peers with similar per capita income, but labor market rigidities have hampered economic dynamism. Historically, Ukraine has benefited from a strong education system that has propelled the country's economic and social development (Gresham and Ambasz 2019). Ukraine boasts one of the highest education attainment rates in the world, including the largest engineering force in Central and Eastern Europe, with 16,000 IT and 130,000 engineering graduates each year (Ukraine Invest 2020). The country ranks 50 out of 157 countries in the WBG's Human Capital Index 2017.[6] However, the skills supplied by the education system do not match those demanded by the expanding sectors of the economy (Gresham and Ambasz 2019). The steady migration to neighboring countries and high youth unemployment rates (nearly twice the overall country average)[7] offer further evidence of a mismatch between the demand and supply of human capital skills. The lack of overall investment has impeded capital formation and job creation, contributing to stagnant labor productivity. Industrial value added per worker in 2018 was at 75 percent of its 2007 level.[8]

Table ES.1 provides examples of how these cross-cutting constraints affect specific sectors.

TABLE ES.1 CROSS-CUTTING CONSTRAINTS ON SELECTED SECTORS, UKRAINE

	CONSTRAINT			
SECTOR	**COMPETITION AND BUILDING A LEVEL PLAYING FIELD FOR THE PRIVATE SECTOR**	**ACCESS TO FINANCE**	**INFRASTRUCTURE**	**EDUCATION AND SKILLS**
Climate-smart agriculture (CSA) and land market reform	State support is ineffective and potentially distortive.	Land laws, for the last two decades and up to very recently (end of March 2020), have been restrictive on the use of land for access to finance. Lack of finance is also a key constraint for CSA, specifically because of the poor enabling environment for climate finance.	Irrigation systems are inadequate and inefficient, and need to be replaced by climate-smart alternatives. Costly transport and logistics networks also add to carbon emissions. Ports are inadequate to handle bulky agriculture inputs like fertilizers.	Scarce support is available on research and extension facilities for CSA; lack of skills among agronomists and research and development personnel and lack of awareness among users (farmers/firms).
Manufacturing GVCs	The legacy of SOEs and weak competition policy hamper the ability of companies to innovate and compete in international markets.	Poor access to credit reduces the dynamism of the private sector. Lack of export financing hinders the globalization of domestic firms.	Transport and logistics systems are inefficient and uncompetitive, unnecessarily increasing the cost of doing business in Ukraine.	Labor productivity is hindered by skills mismatches. The IT sector is being challenged by the out-migration of qualified workers to the EU.
Health care	Regulatory environment for PPPs is weak and nontransparent; e-health regulations are underdeveloped; sanitary standards are opaque and complex. A systemic, integrated approach to promoting and monitoring service outcomes is lacking. Engagement with the private sector is limited.	Limited access to long-term financing instruments, shallow pool of equity financing, and unattractive lending terms are available for long-term projects in the sector.		Health service skills in areas such as ambulatory treatment, preventive care of NCDs, nursing, and management are lacking. There is a high prevalence of "moonlighting" due to low state salaries for public sector health professionals.

Note: CSA = climate-smart agriculture; EU = European Union; GVCs = global value chains; IT = information technology; NCDs = noncommunicable diseases; PPPs = public-private partnerships; SOEs = state-owned enterprises.

SECTOR ASSESSMENTS AND RECOMMENDATIONS

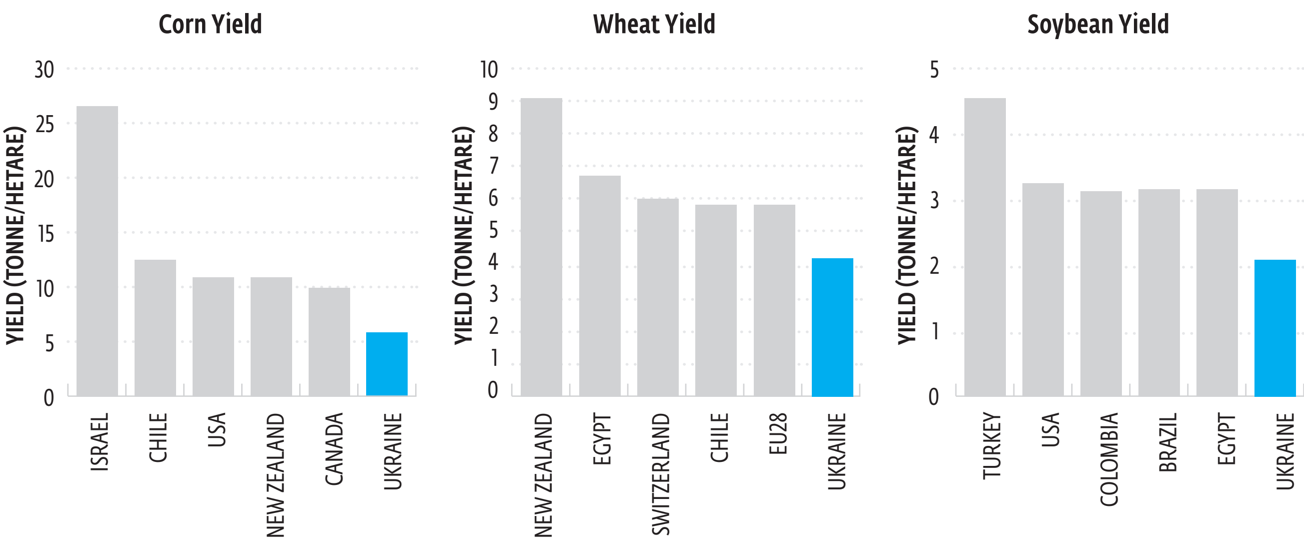
Upgrading the lackluster economic growth of the past requires a combination of measures to tackle these cross-cutting constraints, as well as interventions to address sector-specific barriers to private sector development. The latter should be guided by efforts to leverage Ukraine's rich natural and human capital endowments, a source of comparative advantage in specific economic sectors. The three CPSD sector assessments were chosen with four main criteria in mind: (a) to keep in focus ongoing government of Ukraine reforms that will pave the way for improved sector competitiveness; (b) to strengthen areas in which the country exhibits comparative advantage; (c) to distill where future markets will emerge through extensive consultations with the private sector and other stakeholders; and (d) to fill in knowledge gaps in areas with considerable potential for future private sector engagement in newly created markets. The selection of these sectors does not preclude the importance of others but aims to exemplify private sector investment viability and touch on solutions that could be relevant across the broader economy.

Improving agricultural productivity and exports through the adoption of climate-smart technologies and land market reform

The agriculture sector accounts for the largest share in the country's export basket—produced predominantly by the private sector—and will continue to see significant export demand increases in the future. The dominant share of agricultural production (about 66 percent) is exported—primarily wheat and corn. For the period 2015–17, agricultural exports averaged about US$15.8 billion (44 percent of the country's export earnings), making the sector the largest source of export revenue (State Statistics Service of Ukraine 2018). In 2019, Ukraine was the fifth largest exporter globally in wheat and fourth-largest global corn exporter, with an 11 percent and 18 percent share respectively of the world's total.[9] Oilseed is the second-largest subsector, with stable production flows and an expanding crushing industry, which has made Ukraine the largest exporter of sunflower oil in the world. The global demand for agricultural products is projected to rise significantly by 2050, driven by population growth, urbanization, and changes in dietary mix. The demand for cereals and vegetable oils is expected to be particularly high—cereal demand is projected to increase by a third, reaching 3 billion tons by 2050. Further expanding production is possible by increasing yields, which are far below global standards. Yields in cereals and oilseeds are in the range of 16 to 53 percent of those of world leaders in these crops (figure ES.3).

Climate change poses a key risk to agricultural productivity over and above the adverse impacts of the structural inefficiencies. Changes in weather patterns resulting in temperature and precipitation variances are already showing evidence of reducing production and yields. The 2009 drought reduced wheat production by 30 percent. The increasing frequency of drought events (once every three years on average)[10] has exacerbated changes in river runoff that may decrease by 30–50 percent in any given year. This is important given producers' high dependency on natural precipitation and is a key contributing factor to already high production volatility, with wheat production fluctuating by as much as 20 percent and corn by almost 25 percent every three years (Fileccia, Guadagni, and Hovhera 2014). Estimates from the Ukrainian Agribusiness Club (UCAB) show that climate change may result in harvest losses of up to 40 to 60 percent.[11]

FIGURE ES.3 UKRAINE YIELDS LAG MARKET LEADERS, 2017



Source: OECD and FAO 2019.
Note: EU 28 = member states of the European Union in 2018.

Significant opportunities exist for the growth of the private agricultural sector in Ukraine via climate-smart agriculture (CSA) technologies. Implementing CSA technologies could improve yield/productivity and revenue at the farm/enterprise level, reduce greenhouse gas emissions for the country, and improve long-term resilience of agriculture. Analysis of the state of agricultural production in Ukraine and interviews with stakeholders resulted in the identification of adoption of seven CSA technologies with the potential of increasing agricultural competitiveness: fertilizers, crop protection chemicals, crop rotation, irrigation, agritech/data and planning, seeds, and no-till. Modeling of the potential financial and economic impacts of adopting these technologies in Ukraine shows reductions in average carbon dioxide emissions per hectare, lower costs, and additional revenues per year. Adoption of climate-smart fertilizer, no-till practices and agritech/data tools show the highest returns among the seven technologies listed. If the modeling is credible, then implementation would require an investment of approximately US$1.7 billion and return additional revenue of US$11 billion, and would create a carbon reduction of approximately 11 million metric tons carbon dioxide-equivalent (Carbon Trust and UkrAgroConsult 2019).

However, there are key constraints to adoption of CSA practices that could be addressed through some key interventions. Large Ukrainian agriholdings are already implementing global best practices of CSA technology, providing local examples of these practices in use. However, a dominant share of agricultural production is carried out by about 45,000 small and medium farm enterprises, which face significant barriers to implementing the practices. These include lack of access to finance, knowledge, and skills. In addition, certain regulatory obstacles hinder availability of inputs that are important for sustainable agricultural practices.

Specific short-term recommendations include the following: (a) amending the law on pesticides and agrochemicals to formally recognize the European conformity list of fertilizers and also ease registration and testing requirements to import EU-approved fertilizers; (b) more broadly, align the state support in agriculture with the EU's Common Agricultural Policy; (c) promote a new law for the establishment of water user organizations (WUO), reform water tariffs, reform the legal and regulatory framework for issuing groundwater-abstraction permits, all to support modern irrigation systems; (d) develop public sector expertise by establishing research institutions; (e) enable a carbon market–enabling environment, including establishing climate standards as a means to promote climate finance and more broadly ease access to credit through (f) passing laws on crop receipts and state support of agricultural insurance.

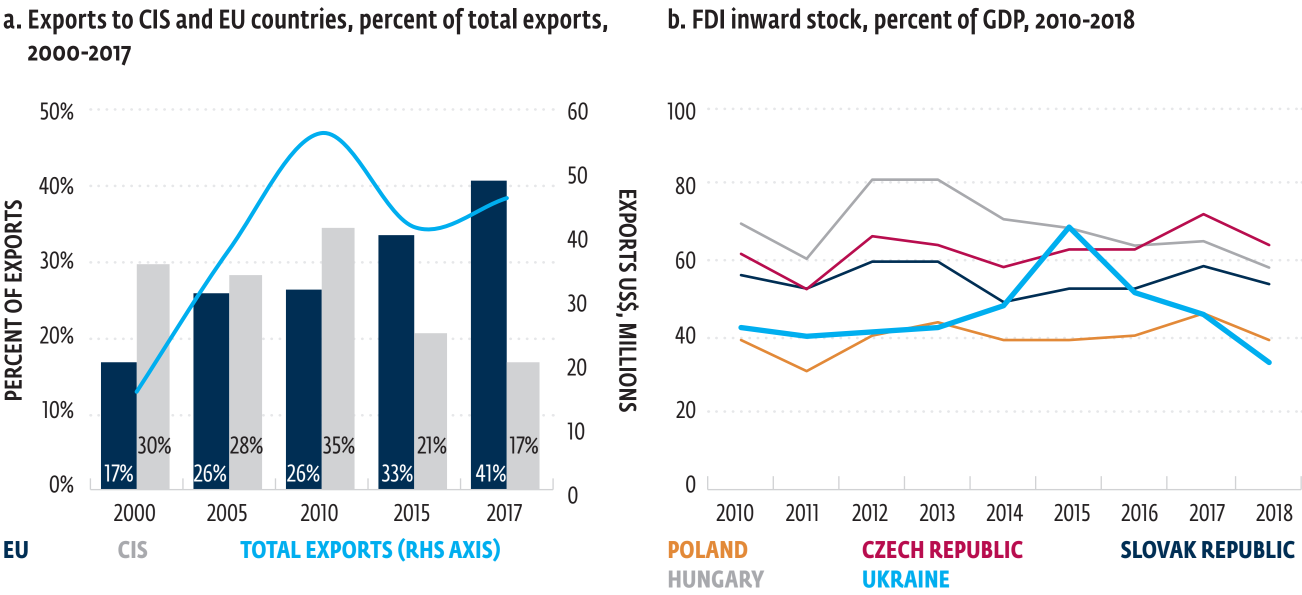
Just recently, at the end of March 2020, the government of Ukraine approved a partial lift of the moratorium on land sales, which helps address the problem of disincentive to invest on fragmented land sizes. Initial estimates suggest that once the moratorium on land sales is fully lifted and in full effect (implementation is set to begin in July 2021), this would have an impact on incremental economic growth of 0.9 percent to about 2.2 percent per year over a 5-year period. Tackling the land reform is a key priority to this agenda, with regulations on landownership for the past two decades creating a significant disincentive to invest in productivity-enhancing processes and technologies, such as CSA practices. The new law currently allows only for citizens of Ukraine, and for a specific land size (no more than 100 hectares), the option to trade; there is the potential of extending this option to include legal entities owned by Ukrainians and foreign investors, possibly under a nationwide referendum in the future, to trade larger plots (up to 10,000 hectares) in 2024.[12]

Connecting Ukraine to Europe's manufacturing global value chains

Given its proximity to the EU market and the relative breadth and depth of the economy, Ukraine stands to gain from better integration into GVCs. The breakdown of production stages across borders allows countries to specialize in activities in which they have a comparative advantage and to exploit economies of scale. GVCs serve as a conduit to transfer new skills to workers, innovative technologies to local firms, and improved managerial practices to local entrepreneurs, thereby boosting economic growth. Greater participation in global markets also fosters competition in the domestic economy, reducing the market power of large incumbent firms. While a country's GVC participation is the result of the interaction of factor endowments, geography, and institutions, it is also the result of deliberate public policies to expand factor endowments, enlarge export markets, overcome geographical barriers, and provide certainty to economic agents (World Bank 2019b).

Trade facilitation barriers, a limited range of efficiency-seeking FDI inflows, and constrained domestic links have diminished Ukraine's success in linking up to European value chains and have held back the country from achieving dynamic and sustainable growth (Smits and others 2019). Over the past decade, Ukraine has been caught between receding access to supply-chain trade with the Russian Federation, in the wake of the conflict in eastern Ukraine, and a yet-underdeveloped access to supply-chain trade with countries in the European Union (figure ES.4). Moreover, while Ukraine's exports to the European Union have been rising over the past decade—a trend that is expected to continue thanks to the recently instituted DCFTA between Ukraine and the EU—its exports to the EU are less complex, compared with both those of other countries in Eastern Europe and Ukraine's traditional export basket to the Commonwealth of Independent States. As a result, Ukrainian exports have trailed those of comparator countries in Eastern Europe, both in terms of volume and complexity. Similarly, Ukraine's FDI inflow figures are below the country's investment potential. FDI inflows to Ukraine reached their lowest level in a decade in 2015, in large part because of the military conflict, and have not returned to their pre-2015 levels. Moreover, efficiency-seeking FDI, a key driver for countries to integrate into the global economy and move up the value chain, is low.

FIGURE ES.4 EXPORTS AND FOREIGN DIRECT INVESTMENT



Source: Exports: World Bank Group staff based on CEPII-BACI International Trade Database. FDI: UNCTAD 2019; UNCTAD World Investment Report 2014–19; tradingeconomics.com (World Bank). Data for Poland, Slovak Republic, Hungary, and Czech Republic based on OECD 2019, FDI stocks (indicator).

Note: CIS = Commonwealth of Independent States; EU = European Union; FDI = foreign direct investment GDP = gross domestic product.

The cases of two newly emerging GVC activities in Ukraine—automotive components and IT services—illustrate well that the country will need concerted policy and institutional support to deepen and broaden participation in global production networks. Ukraine has attracted several automotive component suppliers over the past decade, mostly labor-intensive manufacturing and assembly activities, as European automakers shift assembly of budget models east to take advantage of lower labor costs. Production of automotive components (such as ignition wiring sets) grew from US$21 million in 2000 to US$1.2 billion in 2017 and became one of the fastest-growing product categories of Ukraine's exports in recent years. A cluster of automotive suppliers located in western Ukraine hosts over 30 transnational corporations. This is a promising start, but Ukraine is now concentrated in the lowest-value-added segments of the automotive value chain and will need to offer more than just cost-efficient labor to move beyond this point. At the same time, Ukraine has become a competitive destination for IT outsourcing. In the past five years, the number of digital FDI projects in Europe has more than doubled, driven by US business, which was responsible for 37 percent of digital FDI projects in Europe last year. IT service exports during 2015–18 have shown a 19 percent compound annual growth rate and represented the second-largest share of exports in 2018. With lower operating costs compared with other countries in Western Europe, this makes the sector a hotspot in merger and acquisition activity: indeed, the region saw over 70 merger and acquisition transactions between 2015 and 2018.[13] In contrast to the automotive sector, Ukraine's IT sector has captured an increasing share of value added, with exports ranging from code programming to testing, new product development, design, and research and development (R&D). But the dynamism of Ukraine's IT sector is being challenged by the rapid out-migration of qualified workers to neighboring countries in the EU.

The dilemma for Ukraine is how to attract FDI and increase more sophisticated exports in a world in which GVCs incorporate a growing share of services—such as R&D, design, and marketing—while at the same time leveraging its IT services sector to move to activities within other GVCs to capture a greater share of their value added. Fortunately, the sector assessment preidentified additional opportunities to increase exports and attract FDI in industries in which GVCs are active: electronics/IT, apparel/textiles, automotive, and machinery and equipment. The assessment thus offers a guide to follow up on the in-depth analyses to help validate specific segments of value chains in which Ukraine could participate and thus design strategies to reap the competitive position of the country and respond to the skills needs and standards requirements of key industries.

Specific recommendations to integrate into GVCs include to (a) improve the rule of law and increase transparency in permitting and procurement, while continuing with the implementation of cross-cutting reforms to improve foreign investors' assessment of the business environment in Ukraine; (b) strengthen the country's investment policy and promotion framework, with a particular focus on sectors with promising prospects to attract investment and increase exports (automotive, machinery and equipment, electronics/IT); (c) build up the entrepreneurial and innovation capabilities of local firms, so that they can participate in GVCs; (d) address existing skills gaps and labor market rigidities; (e) take advantage of the expanded market access to the EU by strengthening trade facilitation, policy, promotion, and support services; and (f) address infrastructure bottlenecks that deter industrial activities and export growth. Industrial infrastructure, such as industrial parks, needs to respond to demand and requires thorough planning and implementation to guarantee that the resources needed—such as labor, land, water, connectivity, electricity, and information and communications technology—are readily available and that the regulatory environment is conducive to private sector investment. Industrial parks must adhere to international best practices—including on eco-industrial parks—ensuring that regulations and procedures do not waste fiscal resources.

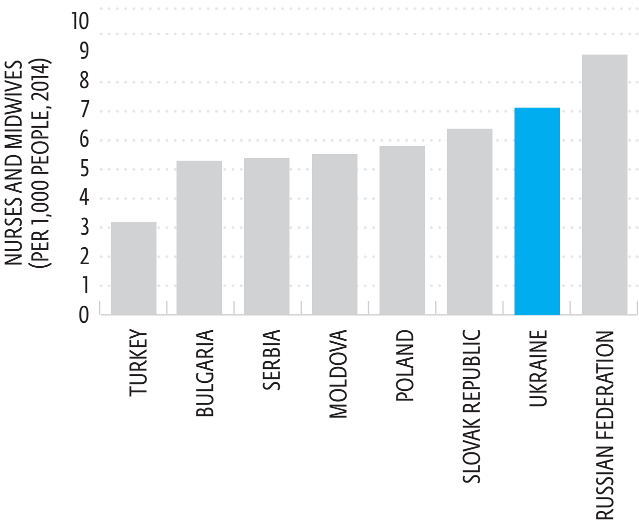
Leveraging the private sector's contribution to support health care reforms

Ukrainians have among the worst health outcomes in Europe. Life expectancy at birth is 72 years (2017), more than 10 years less than the EU average; the adult mortality rate is significantly higher than the average for Europe; and over 25 percent of the adult population, 18 to 65 years of age, has a chronic disease or condition. Poor health affects productivity and economic growth. Ukraine has one of the highest rates of disability due to noncommunicable diseases (NCDs) in Eastern Europe and Central Asia.

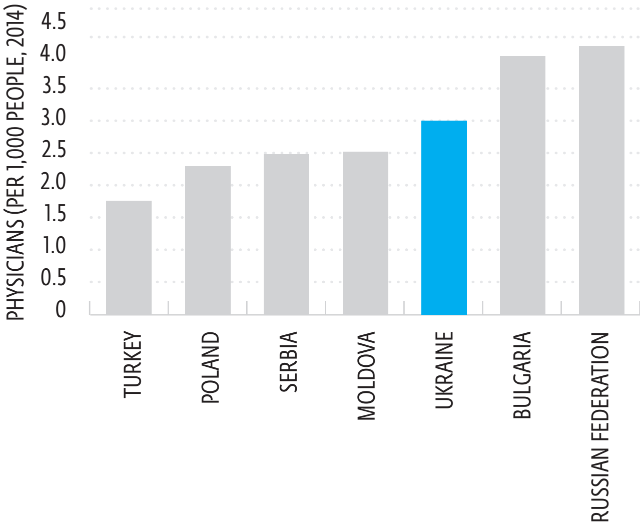
These poor outcomes are, in part, a consequence of the lack of public and private investment in modernizing the health care system over the past 20 years. The system suffers from a legacy of Soviet-era systems and infrastructure. Curative services are prioritized over preventive ones, hospitals over ambulatory services, and specialists over primary health care. This inefficient allocation of public resources in the sector has resulted in an outdated system with an excessively large hospital sector. Expenditures on network facilities and staff account for over 60 percent of the state budget, with little left for basic services and investments in infrastructure modernization. Overall, the country's health outcomes are far below what one would expect given the relatively high numbers of doctors, nurses, and hospital beds. (figure ES.5)

FIGURE ES.5 UKRAINE'S HEALTH WORKFORCE AND INFRASTRUCTURE, COMPARED WITH NEIGHBORING COUNTRIES, VARIOUS YEARS

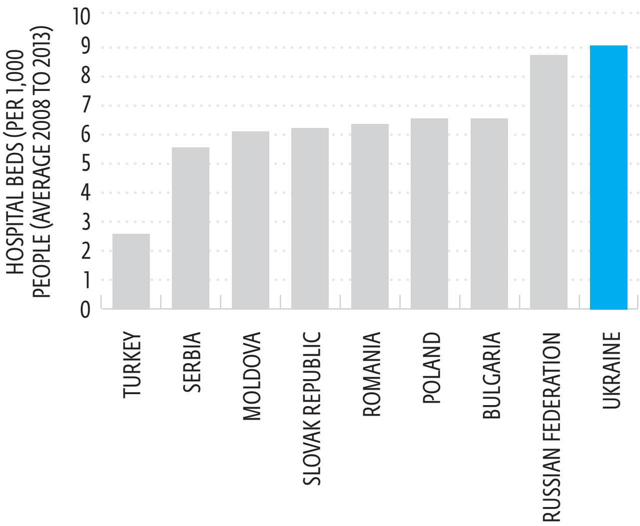
a. Number of nurses and midwives



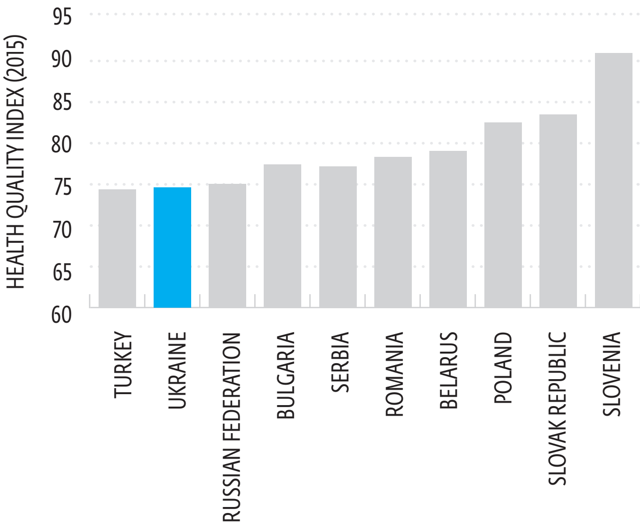
b. Number of doctors



c. Number of hospital beds



d. Health outcomes



Source: World Bank, "World Development Indicators."

The government recognizes these constraints and, over the last few years, has implemented a comprehensive health sector reform package that will require a paradigm shift in demand and supply of health services. The enactment of the health reform bill in 2017 included reorganization of primary care and the establishment of a state procurement agency (the National Health Service of Ukraine, or NHSU, as purchaser of services) to procure private sector services. The reform represents an opportunity to modernize and transform the health care sector (a) from a hospital-centric treatment model to an efficient decentralized system with renewed focus on primary health care and health promotion; (b) from input- to output-based strategic financing, while ensuring outcomes; (c) from the so-called free-care-for-all system with significant informal payments to a transparent benefits package; and (d) from a heavily curative approach to a functional public health system.

The role of the private sector in the provision of health care services has thus far been limited because of the lack of a concrete vision and several barriers to participation. The private sector's share in the health care market is marginal, at just about 3 percent of health care expenditures in the country. This role has been restricted to pharmacies, diagnostic facilities, and private practices that provide services directly to people, with virtually no outsourcing from public facilities. Key barriers to increased private sector participation are a weak PPP framework, limited financing opportunities, minimal public-private dialogue (PPD), e-health regulatory gaps, poor quality of service, poor governance, and an underdeveloped private medical insurance (PMI) market. Lack of skills—specifically among medical, nursing, and management staff—is another key constraint. This deficiency is partly driven by professional education that is highly theoretical and lacks practical training.

Significant opportunities exist for the growth of the private health sector in Ukraine. Private sector participation is possible with public sector initiative if contracting mechanisms can be improved. Though nascent, some early public-private activity has started in primary health care, both formal and informal. About 100 privately owned primary health care practices have signed contracts with the NHSU. More transparent public procurement has improved prospects for private suppliers of medicines and medical equipment and has improved efficiency. Centralized procurement, outsourced to international organizations, has generated savings of about 39 percent for some essential drugs. Stakeholder consultations suggested that the role of the private sector was critical as an "enabler of reform"—that is, as a means to introduce new innovations, technologies, and techniques. E-health services offer an opportunity for the private sector, if the government should develop a comprehensive strategy. Finally, in the pharmaceuticals sector, there is an opportunity for the country to move to generic drug manufacturing as patents of global brands expire.

Specific recommendations to unlock these opportunities and enable private investment include efforts to (a) update the standards framework by adopting the norms for facilities, drugs manufacturing, and advice on quality assurance and control within contracts with health service providers; (b) decrease barriers for imports and certification of equipment and goods; (c) remove duplication and overlap between different state agencies; (d) support e-health regulation; (e) strengthen the PPP framework by improving the contract management system and the process for managing the fiscal implications of PPPs; (f) build capacity for understanding and designing PPPs among key stakeholders; and (g) strengthen PPD through a proper forum, ensuring that vested interests are curtailed.

PRIORITY RECOMMENDATIONS AND KEY POLICY ACTIONS

Table ES.2 summarizes the Ukraine CPSD's priority recommendations and key policy actions.

TABLE ES.2 PRIORITY RECOMMENDATIONS AND KEY POLICY ACTIONS FOR UKRAINE

PRIORITY RECOMMENDATIONS	KEY POLICY ACTIONS
1. CLIMATE-SMART AGRICULTURE (CSA)	
1.1. Promote adoption of climate-smart technologies in agriculture in a market-based manner. **Who**: Government of Ukraine **How**: tariffs, regulations, no incentives	*Short-term actions* (next 1–2 years): • Revise regulations/introduce reform to allow the importation of modern fertilizers, especially from the EU: Amend the Law of Ukraine on Pesticides and Agrochemicals to formally recognize the European conformity list of fertilizers and draft regulations to remove registration and testing requirements to import EU-approved fertilizers. • Analyze tariff structures on imports of CSA with possible reform of rationalization/reduction technologies. • Assess the current state incentive system for agriculture to analyze transparency and efficiency, and to align with EU agricultural policy. • On irrigation, (a) promote a new law for the establishment of a WUO; (b) reform water tariffs for irrigation and drainage service delivery; (c) reform the legal and regulatory framework for issuing groundwater-abstraction permits to agricultural water users and for establishing a web-based permit administration system.
1.2. Improve data availability and information on solutions and best practices. **Who**: Government of Ukraine **How**: capacity, new research institution, awareness	*Short-term actions* (next 1–2 years): • Explore establishing a research institution for CSA technologies to provide data, information, and best practices, or build the capacity of existing institutions, or both. • Advise financial institutions on CSA opportunities, build capacity to assess risks and benefits for lending, and develop financial products for CSA practices. • Support public and private advisory services for irrigated agriculture based on science, knowledge, and information and secure long-term funding.
1.3. Help strengthen the market for climate finance/access to credit for CSA practices. **Who**: Government of Ukraine/ private sector **How**: standards, financial sector capacity	*Short-term actions* (next 1–2 years): • Establish climate standards and enable carbon accounting principles. • Support expansion of agrifinancing through (a) passing the law on crop receipts, currently tabled in Parliament; (b) building the capacity of stakeholders to implement the crop receipts law in the public sector, financial sector, and among farmers and small and medium enterprises (SMEs); (d) passing the law on the state support of agriculture insurance. *Medium-term actions* (3–5 years) • Advise financial institutions on CSA opportunities, build capacity to assess risks and benefits for lending, develop financial products for CSA practices.

2. LAND MARKET REFORM	
Package of reforms including: **2.1.** Expand land reform on agricultural land sales, to include larger size of plots and business and foreign ownership, and implement measures to improve the transparency of land rights. **Who**: Government of Ukraine **How**: legal reform **2.2.** Provide landowners with tools to protect their land rights and prevent the concentration of agricultural land in the hands of a few. **Who**: Government of Ukraine **How**: capacity/safeguards, awareness	*Short-term actions* (next 1–2 years): • Expand, at the earliest opportunity, the coverage of the recently passed land turnover law (approved by Parliament on March 31, 2020, coming into effect July 1, 2021) to include the sale of agricultural land of any size and allow businesses and foreign investors to trade land. • Adopt safeguards to prevent the concentration of agriculture. • Upgrade the technical and operational capacity of the Parliamentary Ombudsman for Human Rights to enable broader protection of land rights. • Inform and enable landowners to exercise their rights. • Complete the registration of all state land by 2023, correcting systematic errors in the cadaster. • Establish local land use plans to fully harness the revenue potential of state land. • Transfer use or ownership rights for any land that is not already under contract, using transparent electronic auctions.
2.3. Implement measures to increase access to credit among agricultural SMEs using land as collateral. **Who**: private sector, farmers/banks **How**: training, incentives	*Short-term actions* (next 1–2 years): • Train farmers and banks in how to put together and evaluate viable investment proposals. • Provide targeted support, such as partial credit guarantees, that can incentivize banks to lend to farmers in SMEs.

3. MANUFACTURING GLOBAL VALUE CHAINS (GVCS)	
3.1. Reform the country's investment policy and institutional framework for promotion. **Who**: Government of Ukraine **How**: institutional framework, after-care program, supplier development program, industrial parks	*Short-term actions* (next 1–2 years): • Strengthen the institutional framework and develop a national strategy for investment policy and promotion with adequate resources (human and financial) and performance-based metrics to evaluate progress toward goals. • Review Ukraine's international investment agreements (IIAs), benchmarking with a new generation IIAs and EU standards. • Conduct a comprehensive inventory of investment incentives and benchmark with competing investment locations. • Design and implement a supplier development program, with emphasis on the industries with a proven track record of deepening economic links in other European countries. *Medium-term actions* (next 3–5 years): • Implement an after-care program to encourage reinvestments and scale-ups by existing investors (this will also affect greenfield FDI through follow-on practices common in FDI-dominated value chains). • Strengthen investment retention and investor grievance management. • Ensure an adequate supply of serviced industrial parks, as well as other supporting infrastructure, driven by investors' demand and adhering to international best practices—including on eco-industrial parks—to reduce FDI start-up times and costs, ensuring that regulations and procedures do not waste fiscal resources.
3.2. Implement industry-specific trade and skills policy reforms to fully leverage the expanded access to the EU market; base them on deep-dive findings. **Who**: Government of Ukraine **How**: national quality infrastructure, standards	*Short-term actions* (next 1–2 years): • Develop and resource a national quality infrastructure strategy aimed at supporting testing, educating on standards, and adopting standards to improve domestic firm integration into GVCs to meet the requirements of export market standards (via FDI links or exports). • Implement a program to improve the branding of Ukrainian products on export markets. • Strengthen SME and entrepreneurship development programs by providing export market information, training, and trade support services to local SMEs. *Medium-term actions* (next 3–5 years): • Establish/strengthen trade financing instruments. • Enhance the development of advanced skills by building and upgrading qualification and occupational standards; introduce performance-based incentives to encourage firm-level investments in skills upgrading and on-the-job training.

4. HEALTH CARE REFORM	
4.1. Improve the regulatory environment. **Who**: Government of Ukraine **How**: standards, quality assurance	*Short-term actions* (next 1–2 years) • Update standards to reflect the needs of modern health care. – Adopt new versions of building and construction norms. – Set standards for drug manufacturing and registration, compliance with bioequivalence. – Decrease barriers for imports and certification of equipment and goods from the international market to improve internal competition and efficiency. • Introduce a clear regulatory oversight framework, including oversight functions and avoiding duplication and overlap between different state bodies. • Support strengthening and regulation of e-health services. *Medium term actions* (3–5 years) • Establish quality assurance, including a National Quality Improvement Strategy, and consider setting up a Quality Accreditation Body.
4.2. Introduce formal public-private sector dialogue (PPD). **Who**: Government of Ukraine/ private sector **How**: dialogue	*Short-term actions* (next 1–2 years) • Establish an appropriate forum for PPD and PPPs, ensuring vested interests are contained. Develop a joint strategy between relevant ministries and the private sector.
4.3. Support capacity building and upgrading of skills. **Who**: Government of Ukraine/ private sector **How**: capacity, skills	*Medium-term actions* (3–5 years) • Assess current curriculum for undergraduate and postgraduate medicine to identify gaps in skill building in line with global best practices. • Develop capacity in public and private institutions to understand, assess, and design PPP models.
4.4. Strengthen public-private partnerships (PPPs).	*Short-term actions* (next 1–2 years) • Improve the PPP contract management system and institutionalize a process for assessing, accounting, and disclosing the fiscal implications of PPPs. • Enable the potential for PPPs in the future through capacity development for (a) understanding and designing PPP models; (b) identifying gaps the private sector could fill; (c) developing/finalizing PPP legislation; and (d) screening projects and prioritizing a PPP pipeline.

FIGURE ES.7 **UKRAINE: DEVELOPMENT INDICATORS, 2014–22 (ESTIMATED)**

	SELECTED INDICATORS	2014	2015	2016	2017	2018	2019E	2020F	2021F	2022F
Economic growth and structure	GDP at Market Prices, US$ mn	133,504	91,031	93,270	112,603	124,647	139,085	139,586	147,993	150,687
	Real GDP growth, %	-6.6	-9.8	2.3	2.5	3.3	3.2	-5.5	1.5	3.1
	Real Total Consumption growth, %	-6.4	-15.7	1.4	7.2	6.9	8.2	-5.3	2.3	3.3
	Real Private Consumption growth, %	-8.3	-19.7	1.8	8.4	8.9	11.9	-7.3	3.2	4.1
	Real Gross Investment growth, %	-24.0	-9.2	20.1	18.4	14.3	14.2	-15.0	8.2	5.2
	Real Gross Private Investment growth, %	-22.3	-16.7	16.8	18.0	8.3	16.2	-22.5	7.5	1.3
	Real Exports of Goods & Services growth, %	-14.2	-13.2	-1.6	3.6	-1.6	6.7	-4.5	1.7	3.1
	Real Imports of Goods & Services growth, %	-22.1	-17.9	8.4	12.8	3.2	6.3	-9.8	6.6	5.0
	Total Consumption, % GDP	90.1	85.2	83.9	85.0	87.2	87.7	86.0	87.2	86.4
	Total Private Consumption, % GDP	70.6	66.2	64.5	63.8	65.6	68.4	65.0	66.3	66.0
	Gross Investment, % GDP	14.1	13.5	15.1	15.6	16.7	17.9	15.8	17.1	18.0
	Gross Private Investment, % GDP	12.6	11.0	12.0	12.3	12.5	13.6	11.0	11.8	12.0
	Exports of Goods & Services, % GDP	48.6	52.6	49.3	47.8	45.0	47.3	45.4	46.9	47.5
	Imports of Goods & Services, % GDP	52.1	54.5	55.5	54.8	54.3	57.8	52.0	55.7	56.1
	Domestic Savings, % GDP	10.7	13.3	11.5	13.5	13.4	17.0	17.3	15.3	15.8
	Private Savings, % GDP	15.2	14.5	13.7	15.8	15.4	19.1	22.2	18.3	18.9
	Agriculture, value added, % GDP	10.2	12.1	11.6	9.8	9.9	9.5	9.7	10.0	10.0
	Industry, value added, % GDP	22.8	21.8	23.0	22.0	21.3	20.2	19.7	19.9	20.1
	Manufacturing, value added, % GDP	12.2	11.9	12.2	12.1	11.6	10.8	..	..	..
	Services, value added, % GDP	54.2	51.1	50.2	54.3	54.8	56.8	56.4	55.8	62.9
Fiscal	Revenue, % GDP	40.3	41.9	39.0	39.1	39.1	39.2	38.7	42.2	43.5
	Expenditure, % GDP	44.8	43.0	41.3	41.4	41.1	41.3	43.6	45.2	46.6
	o/w Interest Payment	2.3	4.2	4.2	3.8	3.4	3.2	3.7	4.6	4.3
	Overall Fiscal Balance, % GDP	-4.5	-1.2	-2.3	-2.3	-2.0	-2.1	-5.0	-3.0	-3.0
	Primary Fiscal Balance, % GDP	-2.1	3.0	2.0	1.5	1.4	1.0	-1.3	1.6	1.3
	General Government Debt, % GDP	70.4	80.0	69.2	71.9	60.6	50.4	62.0	58.9	56.8

	SELECTED INDICATORS	2014	2015	2016	2017	2018	2019E	2020F	2021F	2022F
Money and Prices	Inflation, consumer prices (annual change, period avg.)	12.2	48.7	13.9	13.7	9.8	4.1	4.8	5.0	5.0
	Policy interest rate (annual average)	..	..	..	..	..	..	..	..	..
	Domestic Credit to the Private Sector (% GDP)	59.8	47.0	38.6	31.1	27.7	22.8	..	..	..
	Nominal Exchange Rate (local currency per USD)	11.9	21.8	25.6	26.5	28.1	28.1	29.3	29.6	31.5
	Real Effective Exchange Rate Index (2015=100)	106.4	100.0	102.1	107.1	110.6	114.3	121.8	123.7	116.9
External Accounts	Current account balance (current US$ mn)	-4,596	-189	-3,450	-2,414	-4,042	-1,209	2,029	-2,745	-3,363
	Current account balance (% of GDP)	-3.4	-0.2	-3.7	-2.1	-3.2	-0.9	1.5	-1.9	-2.2
	Foreign Direct Investment, net inflows (% of GDP)	0.2	0.2	0.2	2.1	1.9	2.1	2.1	2.5	2.7
	External debt, total (% GDP)	95.0	129.0	123.3	102.5	91.9	..	..	..	..
	Multilateral debt (% of total external debt)	9.2	10.2	9.6	10.6	10.0	..	..	..	..
	Debt service ratio (% of exports GNFS)	29.4	55.2	23.2	20.7	20.7	..	..	..	..
	Gross Official Reserves (incl. Gold), bn US$	7.5	13.3	15.5	18.9	21.1	25.6	28.3	33.5	38.8
	Gross Official Reserves, months of imports	1.2	2.9	3.2	3.3	3.2	3.6	..	..	..
Population and Income	Population, total (mn)	45.3	45.2	45.0	44.8	44.5	44.3	44.0	43.8	43.5
	Population Growth (annual %)	-0.5	-0.3	-0.3	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6
	Unemployment Rate (% of labor force)	9.3	9.1	9.4	9.5	8.8	8.9	8.9	..	..
	Employment to population ratio, 15+, total %	49.4	49.7	49.4	49.3	49.6	49.3	49.1	..	..
	GDP per capita (US$, nominal)	2,949	2,016	2,072	2,515	2,799	3,140	3,170	3,379	3,460
	Real GDP per capita growth (annual %)	-6.1	-9.5	2.6	3.0	3.9	3.8	-5.0	2.0	3.7
	International poverty rate ($1.9 in 2011 PPP)	0.01	0.02	0.00	0.02	0.01	0.01	0.01	0.01	0.01
	Lower middle-income poverty rate ($3.2 in 2011 PPP)	0.12	0.48	0.43	0.25	0.36	0.24	0.34	0.24	0.24
	Upper middle-income poverty rate ($5.5 in 2011 PPP)	2.50	6.28	5.58	4.63	3.37	2.11	2.33	2.07	1.75
	Inequality - Gini Coefficient	24.0	25.5	25.0	26.0	26.1	..	..	..	..

	SELECTED INDICATORS	2011	2012	2013	2014	2015	2016	2017	2018	2019
Financial Sector	Bank capital to assets ratio (%)	14.8	15.0	15.1	11.2	8.0	9.8	11.9	10.8	13.5
	Bank liquid reserves to bank assets ratio (%)	5.8	5.5	7.0	5.8	11.7	11.4	11.2	10.7	22.4
	Bank NPLs to total gross loans (%)	14.7	16.5	12.9	19.0	28.0	30.5	54.5	52.8	48.4
	Lending interest rate (%)	15.9	18.4	16.6	17.7	21.8	19.2	16.4	19.0	19.8
	Real interest rate (%)	1.5	9.8	11.8	1.6	-12.3	1.6	-4.7	3.1	10.8
Other Development Indicators	Human Capital Index (HCI)	..	..	..	..	..	..	..	0.7	..
	Probability of survival to age 5	..	..	..	..	..	..	..	0.99	..
	Harmonized test scores	..	..	..	..	..	..	..	490	..
	Logistics Performance Index (LPI) Rank	..	65.00	..	60	..	78	..	65	..
	Access to electricity (% of pop'n)	100.0	99.9	100.0	100.0	100.0	100.0	100.0	100.0	..
	Access to electricity, rural (% rural pop'n)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	..
	People using at least basic drinking water services (%)	94.6	94.2	94.0	93.6	93.7	93.7	93.8	..	..
	People using at least basic sanitation services (%)	95.8	95.9	96.1	96.2	96.2	96.2	96.2	..	..
	Mobile cellular subscriptions (per 100 people)	121.9	130.9	138.4	144.3	142.0	133.2	131.4	127.8	130.6
	Fixed Broadband Subscriptions (per 100 people)	7.0	8.0	8.9	9.3	11.6	12.0	12.4	12.8	16.2

Notes: ".." indicates not available. E = estimate, F = forecast.
Sources: Macro-Poverty Out look (October 2020), World Development Indicators, Human Capital Project (2018), Macrobond.
Last Updated: 10/09/2020

NOTES

1 The report draws extensively on stakeholder interviews, original quantitative and qualitatively analysis, secondary sources, and the extensive body of knowledge on Ukraine that the WBG has produced in the recent past. World Bank Group 2019a.

2 The recent World Bank Group (2019a) report analyzes in detail Ukraine's growth performance since independence, analyzing its determinants and remaining challenges. World Bank 2019b.

3 UNCTAD (United Nations Conference on Trade and Development), "FDI stock per capita (in US$, 2018)," UNCTADSTAT database. World Bank 2020c.

4 The International Monetary Fund projects a deeper GDP fall of –7.7 percent. Pop and others 2019.

5 In the short term, the private sector could also play a role in the manufacture of essential personal protective equipment, as is being done in other countries (for example, by automakers using assembly lines for manufacture of ventilators and masks). Smits and others 2019.

6 The Human Capital Index measures the amount of human capital that a child born today can expect to attain by age 18—in Ukraine, higher than what would be predicted for the location's income level. See World Bank Human Capital Project, October 2018, www.worldbank.org/humancapitalproject. Gresham and Ambasz 2019

7 World Bank, "Youth Unemployment Rate for Ukraine," FRED (Federal Reserve Economic Data), Federal Reserve Bank of St. Louis, 2018 (accessed August 21, 2019), https://fred.stlouisfed.org/series/SLUEM1524ZSUKR. Ukraine Invest 2020

8 World Bank, "Industry (including construction), value added per worker (constant 2010 US$)—Ukraine, 2018." Retrieved August 21, 2019, https://data.worldbank.org/indicator/NV.IND.EMPL.KD. State Statistics Service of Ukraine 2018.

9 US Department of Agriculture (USDA), Grain: World Markets and Trade, June 2020. Fileccia, Guadagni, and Hovhera 2014.

10 In the southern and eastern regions, droughts are now occurring each year, compared with once every four to five years. In the northern and western regions, droughts are now occurring one or two times every 10 years, compared with no droughts historically. Carbon Trust and UkrAgroConsult 2019.

11 UCAB is Ukraine's leading sectoral business association of agricultural producers and agribusiness enterprises, including the largest players in the market.

12 President of Ukraine, official website, April 28, 2020.

13 For instance, Google purchased Viewdle, a facial recognition company; Snapchat has acquired Looksery, a real-time facial modification app; and Oracle has bought Maxymiser, a Ukrainian provider of cloud-based software for marketers.

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