



# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 02-Jan-2017 | Report No: PIDISDSA20130



**BASIC INFORMATION**

**A. Basic Project Data**

Country Ukraine	Project ID P156766	Project Name Access to Long Term Finance	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 30-Nov-2016	Estimated Board Date 30-Mar-2017	Practice Area (Lead) Finance & Markets
Lending Instrument Investment Project Financing	Borrower(s) UkrEximbank	Implementing Agency UkrEximbank	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve access to longer term finance for export oriented small and medium enterprises.

Components

Credit facility to provide financing to export oriented SMEs.

**Financing (in USD Million)**

Financing Source	Amount
International Bank for Reconstruction and Development	150.00
<b>Total Project Cost</b>	<b>150.00</b>

Environmental Assessment Category

F - Financial Intermediary Assessment

Decision

The review did authorize the preparation to continue

Other Decision (as needed)

**B. Introduction and Context**

Country Context

Severe shocks, combined with a backlog of structural reforms, resulted in a serious economic crisis in 2014-2015. The bold reforms of 2014-2015, and a de-escalation of the conflict in September 2015, helped to stabilize confidence in



2016. The outlook for economic growth remains weak due to the difficult global economic environment, the ongoing uncertainty related to the conflict in the East, and whether reforms on multiple fronts can be advanced in a complex political environment.

#### Sectoral and Institutional Context

Ukraine's financial sector is undergoing a major transformation since 2014, including an ongoing cleanup of weak institutions and the diminishing dominance of domestic private banks. The structure of exports is also experiencing a landmark geographical shift towards the West, demanding corporate flexibility towards market diversification, and more capital intensive and sophisticated products. Long term finance for capital investment remains scarce, risking that the country may fall short of its full export potential. SMEs are particularly constrained, particularly with regards to tenor. UkrEximbank mission is to support exporters, and the bank has worked with the World Bank towards this goal under the Export Development Project (EDP) series. The authorities, with the help of the World Bank, are pursuing a comprehensive SOB reform agenda, which will refocus UkrEximbank's mandate and governance towards its eventual partial privatization. UkrEximbank is undertaking work in anticipation of these changes, including an upgrade of its risk management systems.

### **C. Proposed Development Objective(s)**

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to improve access to longer term finance for export oriented small and medium enterprises.

#### Key Results

Key PDO indicators include the following: (i) Ratio of the average maturity of SME sub-finance under the project, over the average maturity of PFIs' SME portfolio not financed under the project; (ii) Number of SME beneficiaries financed by PFIs under the project; (iii) Volume of Bank support. Notably, under these indicators, UkrEximbank is treated as a PFI.

### **D. Project Description**

A single project component will provide a total of US\$150 million to be intermediated by UkrEximbank, as Borrower and implementing agency, targeting export oriented SMEs. Sub-component 1 will be on-lend through PFIs (estimated at US\$100 million) and sub-component 2 will be direct lending by UkrEximbank (estimated at US\$50 million). The choice of a single component provides re-allocation flexibility against a potentially limited number of PFIs and high financial markets uncertainty. The focus of the project is on sub-loan maturity extension, rather than broadening access, with explicit minimum maturities set for sub-finance.

Under Sub-Component 1, UkrEximbank will on-lend funds through PFIs. UkrEximbank will select PFIs pursuant to criteria agreed with the World Bank, and subject to no objection by the World Bank. The selected PFIs will, in turn, provide sub-finance to private export oriented SMEs, the final beneficiaries of the credit line. The PFIs will assume the credit risk of the sub-borrowers that will be selected based on agreed upon eligibility criteria. UkrEximbank will have exposure only to the selected PFIs and will assume the credit risk for on-lending funds to PFIs. Sub-finance will be for longer term investment financing and working capital financing (to accommodate the nature of export finance, potential delays in the payments for goods sold and services provided in an uncertain macro-financial environment, as well as, more generally, to provide flexibility to smaller size enterprises).

Under Sub-Component 2, UkrEximbank will act as a PFI. UkrEximbank will act as a PFI, lending directly to export oriented SMEs, assuming the credit risk of sub-finance to the sub-borrowers. The eligibility criteria of sub-finance and for sub-borrowers will be different under Component 1 and 2 to reflect the differences in financing models. Direct lending will be subject to market segmentation by the constraint on UkrEximbank of providing longer maturities



(compared to other PFIs). In addition, the Subsidiary Finance Agreements will include explicit provisions on confidentiality and fair competition.

PAD Annex 1 includes detailed definition of eligibility criteria, and terms and conditions: (i) the Loan terms and conditions between IBRD and UkrEximbank; (ii) the eligibility criteria for the PFIs that will be financed by UkrEximbank, and the terms and conditions of subsidiary finance between UkrEximbank and PFIs; (iii) the eligibility criteria for the SMEs that will be financed by PFIs, and the terms and conditions of sub-finance between PFIs and SMEs; and (iv) additional terms and conditions of sub-finance between UkrEximbank and SMEs.

## **E. Implementation**

### **Institutional and Implementation Arrangements**

UkrEximbank was selected for its experience with exporters and the World Bank. UkrEximbank, Ukraine's sole official export financing institution with an overall lending portfolio of UAH140 billion (US\$5.6 billion equivalent), has extensive experience in the export sector (with its loans accounting for the majority of all export loans in Ukraine, although primarily short term), as well as in direct lending and on-lending through PFIs. Additional criteria for selecting UkrEximbank include the bank's relatively sound financial position, and its good performance as the Borrower in the completed EDP series financed by the World Bank. UkrEximbank conforms to internationally accepted rules and regulations set forth by organizations such as the World Trade Organization (WTO), the Organization for Economic Co-operation and Development (OECD) and the EU, and operates in accordance with the obligations arising from Ukraine's membership in the WTO, the OECD Export Credits and Credit Guarantees Group and from the DCFTA between Ukraine and the EU.

The Project Implementation Unit (PIU) at UkrEximbank is staffed with qualified personnel, capable of satisfactorily implementing all aspects of the project, already performed under past and current World Bank projects. Its responsibilities will include: (i) selection of and on-lending to PFIs; (ii) monitoring of PFIs to ensure compliance with project criteria; (iii) coordination of UkrEximbank's direct lending; (iv) responsibility for adherence to all fiduciary and safeguard requirements of the World Bank for final borrowers; and (v) monitoring and evaluation based on key indicators. UkrEximbank has extensive experience in implementing World Bank projects.

PFIs will be selected by UkrEximbank (subject to the World Bank's no objection) based on their financial health, as well as their capacity to implement sub-projects. UkrEximbank takes the credit risk of PFIs and therefore has a strong incentive to carefully assess their financial health and operational capabilities. The PFI selection is also subject to a no-objection process by the World Bank, while Subsidiary Finance Agreement covenants between UkrEximbank and PFIs require compliance with local regulations thereby supporting the continued financial health of the PFIs. If PFIs do not effectively implement the project, they may be substituted for other eligible PFIs.

## **F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

UkrEximbank and PFIs will provide sub-loans to SMEs throughout Ukraine, so the project locations are unclear at this moment. The client prepared an umbrella framework (ESMF) to discuss the process of sub-project screening, impact assessment and due-diligence analysis as per national environmental requirements and safeguard policies of the World Bank. There is no sector specific limitation regarding the type of SMEs to be financed. Sectors such as alcohol production, tobacco production, arms etc. will not be eligible for financing (negative list).

## **G. Environmental and Social Safeguards Specialists on the Team**

Arcadii Capcelea, Volodymyr Tykhyy, Mariia Nikitova



**SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The Environmental Category of the project is A and FI, since it'll be conducted via a Financial Intermediary Bank. Since it'll be an on-lending project to SMEs, the investments (sub-projects) will not be identified until project implementation. Environmental issues of the sub-projects will be addressed through the sub-loan environmental eligibility assessments. Environmental review process will be carried out in accordance with both Government of Ukraine's environmental legislation and World Bank OP4.01 requirements and OP4.09 where applicable.</p> <p>Due to the nature of the project, working capital or investment loan applications are expected. Working capital loans are generally targeted to purchase of raw material. Investment loans are expected to mainly focus on equipment purchase/replacement. To be on the safe side, the Environmental and Social Management Framework (ESMF) has been developed for the review and assessment process.</p> <p>The environmental assessment (including environmental due diligence) procedures will be conducted according to the ESMF and Operations Manual (OM) that will be prepared by UkrEximbank and approved by World Bank.</p> <p>While on-lending the PFIs, UkrEximbank will include the ESMF as part of the sub-loan agreement and will be responsible for monitoring and ensuring the satisfactory performance of PFIs to comply with the ESMF.</p> <p>None of the safeguards policies other than OP4.01 or OP4.09 is being triggered, with the understanding that: 1) any sub-projects that could trigger the other safeguards policies will not be eligible for financing, 2) the ESMF will include a checklist to ensure that sub-projects are screened according to this criteria,</p>



3) the World Bank will conduct relevant training and capacity building for the FI to screen sub-projects and to monitor the PFIs to successfully screen sub-projects, and 4) the World Bank will perform prior review and clearance of all sub-projects falling in Category "A", and the first 3 of Category "B" with an 'ad-hoc' basis thereafter.

Natural Habitats OP/BP 4.04 No

Forests OP/BP 4.36 No

If the use of pesticides is envisaged by a sub-project, OP4.09 Pest Management is triggered. In agricultural projects, the borrower addresses pest management issues in the context of the project's environmental assessment to ensure that pest management activities follow an Integrated Pest Management (IPM) approach, minimize environmental and health hazards due to pesticide use.

In the case of use of pesticides by beneficiary enterprises in their activity, OP4.09 applies to such agricultural sub-projects, whether or not the World Bank Loan finances pesticides. Even if procurement of the pesticides is not financed under the sub-loan, an agricultural development project may lead to substantially increased pesticide use and subsequent environmental problems.

Pest Management OP 4.09 Yes

The procurement of any pesticide in a World Bank-financed project is contingent on an assessment of the nature and degree of associated risks, taking into account the proposed use and the intended users. This assessment is made in the context of the project's environmental assessment and is recorded in the project documents. The project documents also include a list of pesticide products authorized for procurement under the project, or an indication of when and how this list will be developed and agreed upon.

Physical Cultural Resources OP/BP 4.11 No

Indigenous Peoples OP/BP 4.10 No

Any sub-project that involves involuntary land acquisition that will trigger OP 4.12 will not be eligible for financing. The ESMF will include a checklist to ensure that sub-projects are screened

Involuntary Resettlement OP/BP 4.12 No



according to this criteria. The World Bank will conduct relevant training and capacity building for the FI (UkrEximbank) to screen sub-projects. The World Bank will monitor the PFIs to successfully screen sub-projects, and the World Bank will conduct prior review for an initial set of sub-projects and from then after conduct supervision spot checks for a number of sub-projects. UkrEximbank should not fund projects that have also recently acquired land involuntarily in anticipation of use for the project to be funded by UkrEximbank.

Safety of Dams OP/BP 4.37	No
Projects on International Waterways OP/BP 7.50	No
Projects in Disputed Areas OP/BP 7.60	No

## KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The Environmental Category of the project is A and FI, and the safeguards policy triggered are only OP 4.01 and OP 4.09 where applicable. The sub-projects will be subject to environmental assessment and the assessments will be carried out in accordance with both Government of Ukraine Environmental Regulations and World Bank safeguards requirements. National laws and regulations under environmental law will also be monitored while conducting the due-diligence studies for the existing facilities applying for sub-finance. The procedures and institutional responsibilities are all delineated in the Environmental and Social Management Framework (ESMF) Document of the Borrower.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: No long term impacts are anticipated, and, in any case, this will be evaluated in individual sub-finance Environmental Assessment (EA) documents as needed.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts. This will be evaluated in individual sub-finance EAs as needed.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

As part of the Operations Manual (OM), the Borrower -UkrEximbank- has prepared the Environmental and Social Management Framework procedures that serve as the ESMF document and define the environmental assessment procedures for the project. UkrEximbank will review and assess the sub-projects in line with the disclosed ESMF document. The sub-borrowers will be responsible for carrying out any environmental analysis and for confirming that



the proposed sub-projects comply with national environmental guidelines, and for obtaining the necessary clearance from the appropriate licensing authorities. Once the analysis is performed and recommendations incorporated into the sub project, UkrEximbank will appraise the proposed sub-finance package that will include, where appropriate, an Environmental Management Plan (EMP). The implementation of the EMP will be monitored by UkrEximbank as well. UkrEximbank is familiar with WB safeguard policies since they have participated in previous and ongoing World Bank projects. Nevertheless, to enhance institutional capacity, safeguards training will be conducted in future for all PIUs and UkrEximbank will send their relevant staff for improving their knowledge on OP 4.01. In case of on-lending to PFIs, the PFI will conduct the environmental and social review as detailed in the ESMF. UkrEximbank will be the main responsible body for providing overall guidance and compliance check in the PFI on-lending activities.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The ESMF was disclosed in country through the website of UkrEximbank. In the case of sub-finance applications that are categorized as 'A' or 'B' and public consultation is necessary, these will be conducted while the sub-project EMPs are being prepared.

**B. Disclosure Requirements**

**Environmental Assessment/Audit/Management Plan/Other**

Date of receipt by the Bank	Date of submission to InfoShop	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
24-Nov-2016	29-Nov-2016	

**"In country" Disclosure**

Ukraine  
24-Nov-2016

Comments

**Pest Management Plan**

Was the document disclosed prior to appraisal?	Date of receipt by the Bank	Date of submission to InfoShop
NA		

**"In country" Disclosure**



If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

Pest Management was included in the disclosed ESMF.

**C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)**

**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?

Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

Yes

**OP 4.09 - Pest Management**

Does the EA adequately address the pest management issues?

Yes

Is a separate PMP required?

No

If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?

NA

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank's Infoshop?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes



### All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

### CONTACT POINT

#### World Bank

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#### Borrower/Client/Recipient

UkrEximbank

#### Implementing Agencies

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**APPROVAL**

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