



BLACK SEA TRADE AND DEVELOPMENT BANK

UKRAINE

Country Strategy

2019-2022

UKRAINE COUNTRY STRATEGY

TABLE OF CONTENTS

TEXT:

- I. Summary of Recent Developments and Outlook**
- II. Overview of Current BSTDB Portfolio**
- III. Review of Country Strategy 2019-2022: Post-Evaluation**
- IV. BSTDB Operational Priorities for 2019-2022**

TABLES:

- Table 1: Basic Macroeconomic Indicators at a Glance**
- Table 2: Active BSTDB Portfolio as at end December 2018**
- Table 3: Post Evaluation of 2019-2022 Country Strategy**

Table 1: Basic Macroeconomic Indicators at a Glance for UKRAINE

Key Long Term Foreign Currency Sovereign Risk Rating at 1 November, 2019:

Moody's: Caa1 | S&P: B | Fitch: B

		2015	2016	2017	Est. 2018	Proj. 2019	Proj. 2020
1	Population (Million)	42.8	42.6	42.4	42.2	42.0	41.8
2	Avg Exch. Rate (Hryvna/ US\$)	21.8	25.6	26.6	27.2	26.9	28.4
3	Inflation (CPI Avg.)	48.7%	13.9%	14.4%	10.9%	8.6%	7.7%
4	Average monthly wages (US\$)	192.0	202.8	267.1	325.9	<i>n.a.</i>	<i>n.a.</i>
5	GDP (Hryvna million)	1,988.5	2,385.4	2,983.9	3,558.7	3,972.1	4,392.4
6	GDP US\$ million	91.0	93.4	112.2	130.8	147.8	154.5
7	GDP per capita (US\$)	2,129	2,192	2,647	3,104	3,518	3,693
8	Real GDP growth, %	-9.8%	2.4%	2.5%	3.3%	3.0%	2.9%
9	Official Unemployment (end of period) %	9.1%	9.3%	9.5%	8.8%	8.7%	8.3%
10	Industrial Production Growth, %	-13.0%	2.8%	0.4%	1.6%	3.0%	2.8%
11	Agricultural Production Growth %	-4.8%	6.3%	-2.2%	8.1%	<i>n.a.</i>	<i>n.a.</i>
12	Domestic Credit Growth %	-0.4%	11.3%	4.4%	3.0%	-6.1%	1.2%
13	Domestic Credit/ GDP	75.8%	70.3%	58.6%	50.6%	42.6%	39.0%
14	Foreign Direct Investment - \$US million	3,050.0	3,441.0	2,827.0	2,476.0	1,900.0	1,800.0
15	FDI/ GDP	3.4%	3.7%	2.5%	1.9%	1.3%	1.2%
16	Consolidated Budget Balance/ GDP, %	-1.4%	-2.2%	-1.3%	-1.9%	<i>n.a.</i>	<i>n.a.</i>
17	Total External Debt- US\$ million	117.7	112.5	115.5	114.7	117.7	121.3
18	Total External Debt/ GDP	129.3%	120.5%	102.9%	87.7%	79.7%	78.5%
19	Public External Debt/GDP	46.9%	45.8%	41.3%	36.7%	<i>n.a.</i>	<i>n.a.</i>
20	Private External Debt/ GDP	82.4%	74.8%	61.6%	50.9%	<i>n.a.</i>	<i>n.a.</i>
21	Exports- \$US million (Goods)	35.4	33.6	39.7	43.3	45.0	47.3
22	Imports- \$US million (Goods)	38.9	40.5	49.4	56.1	61.1	63.5
23	Trade Balance \$US mn (Goods)	-3.5	-6.9	-9.7	-12.7	-16.1	-16.1
24	Trade Balance/ GDP	-3.8%	-7.4%	-8.6%	-9.7%	-10.9%	-10.4%
25	Current Account Balance \$US mn	1.6	-1.3	-2.4	-4.4	-4.7	-4.7
26	Current Acct. Bal./ GDP	1.8%	-1.4%	-2.2%	-3.3%	-3.2%	-3.1%
27	Forex Reserves (end period- exc gold) US\$ m	12.4	14.6	17.7	19.8	22.2	23.4

Sources: National Bank of Ukraine; State Statistics Committee of Ukraine, IFS –IMF October 2019; IMF Ukraine: Request for Stand-By Arrangement and Cancellation of Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Ukraine; Report No. 19/3 January 2019.

UKRAINE COUNTRY STRATEGY 2019-2022

I. Summary of Recent Economic Developments and Outlook

Between 2009-2015, Ukraine experienced a protracted economic crisis with two severe dips, the first of which was a decline in GDP of -15.1% of GDP in the aftermath of the global financial crisis and the ensuing economic downturn. The economy recovered during 2010-2011, but growth again faltered after the 2012 Euro football competition as investment tapered and export growth declined. Rising foreign debt and a sharp increase in the current account deficit resulted in a deteriorating economic situation that led to political turmoil in late 2013 and cross-border geopolitical turmoil in 2014-2015. Real GDP contracted by 6.6% in 2014 and 9.8% in 2015- more than 15% cumulatively- and was accompanied by further deterioration in key indicators of external balance such as debt levels and reserves. The economic decline and the inability to access capital markets combined to create a large public financing gap. As a result, Ukraine requested IMF support and a pre-condition for obtaining it was a restructuring of Ukraine's public debt with private creditors. It was realized as a US\$ 15.3 billion 'debt operation'- which was considered however as an event of default by credit rating agencies. The program helped to stabilize the economy and together with successful reform of the financial system Ukraine has returned to positive, albeit relatively low and fragile, economic growth, with improvement in key economic indicators.

Recent macroeconomic trends

Following three years of contraction, the Ukrainian economy returned to growth in 2016. However, the growth was relatively subdued- in the 2.4%-3.3% range between 2016-2018. Together with the -9.8% contraction in 2015, annual average change of GDP in 2015-2018 period was -0.4% per year compared to -0.2% per year in the previous four year period. Unlike the 2011-2014 period, economic growth in the post 2015 period was mainly driven by investment, with an annual average growth rate of gross capital formation at 14.2% in 2015-2018 compared to a 9.6% contraction in the previous four year period. Despite the fact that household demand increased in 2017 and 2018, the four year annual average from 2015 to 2018 remained subdued at an annual average of 0.3% per year, compared to 5.7% growth in the 2011-2014 period. Fast recovery in imports and failure of exports to match resulted in the negative contribution of net exports to growth, which cancelled most of the positive contributions of the other sectors.

In nominal US\$ terms Ukrainian GDP reached US\$ 130.9bn in 2018, up from US\$ 90.5bn in 2015, albeit below the previous peak of US\$179.6bn in 2013. Similarly, GDP per capita recovered some losses and reached US\$ 3,112 in 2018, but was still below the high point of US\$3,969 recorded in 2013.

External sector

Ukraine's current account deficit narrowed from an annual average of 6.8% of GDP in 2011-2014 period to 1.3% of GDP in 2015-2018 period. During this period, remittances increased from an annual average of 4.6% of GDP to 8.1% of GDP, thereby acting as a key contributor to the improvement in the external balance. Improvement was also recorded in goods trade, as imports, relative to GDP decreased far more compared to the minor retreat in exports. A negative contribution to the external balance came from services, as travel balances worsened with travel expenses increasing from an annual average of 3.2% of GDP during 2011-2014 to 6.1% of GDP in the 2015-2018 period.

The external balance was financed mainly by foreign direct investment, which remained broadly flat at an annual average of 2.7% of GDP in the 2015-2018 period, similar to the average in the previous four year period. In nominal US\$ terms, on the other hand, foreign direct investment declined from US\$ 4.6bn from 2011-2014 to US\$ 2.8bn in the 2015-2018 period. Net inflows from the portfolio investments were balanced by net outflows from other investments, while positive flows were recorded in the net errors and omissions. As a result, inflows

from the financial account were higher than the current and capital account deficits, resulting in the buildup of reserves during the 2015-2018 period.

International reserves of Ukraine fell precipitously to a low point in February 2015 of US\$ 5.6bn, down from the high of the previous four year period of US\$ 38.4bn recorded in April 2011. However, after February 2015 reserves recovered, rising steadily and reaching US\$ 20.8bn by the end of 2018, enough to cover 3.5 months of imports of goods and services.

While in nominal US\$ terms Ukraine's gross external debt declined since it reached a peak of US\$ 142.1bn in 2013, as a ratio to GDP it surged from 79.1% in 2013 to 130.0% in 2015 as a result of the weakness in the local currency. With the currency stabilizing and growth recovering, the ratio dropped to 102.9% of GDP in 2017 and fell further to 87.7% of GDP in 2018. In nominal US\$ terms, gross external debt remained broadly flat within the narrow band of US\$ 112.5-117.7bn during the 2015-2018 period. In terms of composition, the share of the general government and the central bank in the total gross external debt increased from 28.0% in 2014 to 41.9% in 2018.

Export of goods from Ukraine peaked in 2012 at US\$ 64.4bn. In the following years exports declined and reached a low in 2016 at US\$ 33.6bn. Since then exports partially rebounded, rising to US\$ 43.3bn in 2018. Export contraction was primarily driven by a drop in exports of metals and machinery, which declined 29.3% between 2014 and 2018, while a positive contribution came from the export of agricultural products, which reached US\$ 18.6bn in 2018, or 11.5% more than in 2014.

Imports in 2018 reached US\$ 53.9bn, up 5.2% compared to 2014 but still 33.7% less than in 2012. The increase compared to 2014 was mainly driven by growth in imports of machinery and equipment which was up 49.1%, while main negative contribution came from the drop in imports of agricultural products.

In terms of country of destination, the main negative contribution to exports in 2018 compared to 2014 came from the drop in exports to Russia, followed by Egypt, Turkey and Kazakhstan, while positive contribution came from increasing exports to major EU member countries. Russia still dominated Ukraine's exports, accounting for 7.7% of total exports in 2018, but was down from 18.2% in 2014. It was followed by Poland, Italy, Turkey, and Germany. Russia dominated imports to Ukraine too, followed by China, Germany, Belarus and Poland.

Exports from Ukraine to BSTDB member countries fell to US\$ 9.5bn in 2018 or 43.0% less than in 2014. As a result, the share of BSTDB member countries in total exports declined from 31.0% in 2014 to 20.1% in 2018. While total imports of Ukraine increased in 2018 compared to 2014, imports from BSTDB member countries declined by 25.9%. As a result, the share of BSTDB member countries in total imports to Ukraine declined from 28.8% in 2014 to 20.4% in 2018.

Public finances

Consolidated budget revenues in Ukraine were up from an annual average of 30.3% of GDP from 2011-2014 to 33.2% of GDP in the 2015-2018 period, while expenditure increased more modestly, from 33.9% of GDP to 35.0% of GDP, resulting in a narrowing of the deficit from an annual average of 3.6% of GDP to 1.8% of GDP in the 2015-2018 period. Excluding debt servicing, the budget balance switched from a deficit of 1.2% of GDP in 2011-2014 period to a surplus of 2.1% of GDP during 2015-2018. On the revenue side, the main sources of the improvement were higher receipts from local taxes and fees, followed by an increase in excise receipts and VAT on imported goods, and higher income from property and business activity. The expenditure bill in the 2015-2018 period, compared to 2011-2014, was fed by higher debt servicing, followed by higher capital expenditure, acquisition of goods and services, and social welfare, while savings were attained in the salary expenses and current transfers.

The deficit in the 2015-2018 period was financed mainly through external sources, while in net terms the government repaid some of its domestic debt. As a result, state domestic debt together with state domestic

guarantees, declined from 30.8% of GDP in 2014 to 21.7% of GDP in 2018, while external debt inched up slightly from 38.6% of GDP to 39.2% of GDP. In total, state debt together with state domestic guarantees increased from 69.4% of GDP in 2014 to 80.9% of GDP in 2016, before declining and retreating to 60.9% of GDP in 2018.

Inflation, exchange rate, and monetary policy

Inflation in Ukraine surged in 2015 to 48.7%, following the devaluation of the local currency and heightened negative sentiments regarding the outlook. Since then inflation retreated to 10.9% in 2018, albeit still at double digit level and far above the targeted rate of 5.0%. Over the four year period from 2015 to 2018 inflation averaged 22.0%, compared to an annual average of 5.1% in the previous four year period.

Core inflation similarly surged in 2015 and reached 40.4%. Since then it has retreated, falling to 5.8% in 2018. Core inflation averaged 14.7% from 2015 to 2018, compared to 7.7% in the previous four year period.

Following a steep devaluation and depreciation in 2014 and 2015, the exchange rate of Ukrainian Hryvnia relatively stabilized in 2016 and afterwards, and hovered in a relatively narrow band. The USD/UAH exchange rate went from 8.15 in early 2014 to 30.0 by the end of February 2015 corresponding to a 72.8% devaluation. For the rest of 2015 the rate remained volatile, appreciating at one point to 20.6 UAH per US\$ and finishing the year at 24.0. Volatility subsided significantly from 2016 onwards and the rate moved in the 23.3-28.9 range until the end of 2018. In annual average terms, the USD/UAH exchange rate moved from UAH 9.0 per US\$ in the 2011-2014 period to UAH 25.3 per US\$ in the 2015-2018 period.

Faced with inflationary pressures, the National Bank of Ukraine increased its key policy rate from early 2014 on. The rate was initially raised from a low of 6.5% to 9.5% on April 15, 2014, and within one year, in four additional steps, rates were elevated further to 30.0%. As inflationary pressures retreated, NBU eased rates slightly, from 30.0% to 22.0% as of end of August 2015. Relatively aggressive easing started on April 22, 2016 until September 14, 2017 with the rate cut further to 12.5%. However, with inflationary pressures intensifying again, NBU reversed the easing policy at its October 27, 2017 meeting by raising the rate from 12.5% to 13.5%, and in a series of subsequent meetings tightening continued until the key policy rate was brought to 18.0% in early September 2018, at which level it stayed until the end of the year. Ukraine employs an inflation targeting regime, and currently targets an inflation rate of 5% +/- 1% over the medium term.

Banking sector

While in nominal UAH terms banking sector assets were flat from 2014 to 2018, in terms of ratio to GDP they fell from 82.9% of GDP in 2014 to 38.2% of GDP in 2018. During this period non-performing loans rose from 19.0% in 2014 to 54.5% in 2017 before retreating marginally to 52.9% in 2018.

In similar manner to total assets, loans remained relatively flat from 2014 to 2018 in nominal UAH terms, while as a ratio to GDP they declined from 64.3% of GDP to 30.2% of GDP. As challenges mounted, the share of foreign currency loans in Ukraine increased from 33.8% in 2013 to 55.8% in 2015, before retreating to 42.8% in 2018. Unlike loans, deposits in nominal UAH terms continued to increase since 2014. This growth was particularly fed by local currency deposits in 2018, which resulted in deposit dollarization declining from 45.9% in 2014 to 42.0% in 2018. At the same time, this resulted in a decline of the loan to deposit ratio from 151.2% in 2014 to 115.0% in 2018.

Outlook

According to official projections, Ukrainian GDP growth is forecast to increase gradually and reach 4.1% in 2022 and the average annual growth rate from 2019 to 2022 will be around 3.8% per year. UAH is forecast to mildly depreciate over the four years from USD/UAH 26.1 in 2019 to 37.5 in 2022. Should this forecast materialize, Ukrainian GDP in US\$ terms would reach US\$ 203.4bn in 2022 compared to US\$ 130.8bn in 2018. Domestic demand is expected to remain the main driver of growth, which in turn will feed imports. As a result, it is expected that the current account deficit will widen from US\$ 4.4bn in 2018 to US\$ 8.5bn in 2022 or from 3.3%

of GDP to 4.2% of GDP in 2022. Inflation, on the other hand, is expected to retreat to 4.7% in 2022, despite the increase in domestic demand.

II. Overview of Current BSTDB Portfolio

As of 30 September 2019, the active BSTDB portfolio in Ukraine consisted of 17 operations approved by the Board of Directors (BoD), involving an investment of € 297.7 million. Of these, 15 were signed for € 218.9 million and the outstanding disbursements were at € 118.4 million. Ukraine ranks fourth in the BSTDB portfolio with 9.8% of BoD approved operations, fifth in terms of commitments with 8.4% of total signed operations, and it ranks sixth in terms of amounts outstanding in the total portfolio at 6.3%. Relative to the Bank's active portfolio at the end of 2014, Board approvals increased by 77.2%, signings by 33.6%, and amounts outstanding by 63.9%.

Table 2: Active BSTDB Portfolio in Ukraine as at 30 September 2018

All Figures in Euros Million	BoD Approval Date	Approved Amount	Signed Amount	Amount Outstanding
Emerging Europe Accession Fund	25-Sep-09	1.2	1.2	1.0
Europe Virgin Fund*	29-Apr-11	5.5	5.5	5.2
Equity to ADM CEECAT Recovery	21-Jul-11	2.1	2.1	0.8
Galnaftogaz III*	21-Jul-11	27.6	27.6	3.9
Galnaftogaz IV*	30-Oct-13	23.0	18.4	2.9
CreditWest Bank*	18-Sep-15	4.6	4.6	4.6
Radisson Hotel Odessa	26-May-17	15.4	15.4	-
Orexim	17-Aug-17	31.0	31.0	31.0
Novotech*	30-Aug-17	4.6	4.6	4.6
Galnaftogaz Capex Facility*	17-Nov-17	18.4	18.4	18.4
Agrospletservice Group*	21-Sep-18	9.2	9.2	4.1
Rengy Bioenergy Solar PV	23-Oct-18	18.5	18.1	16.3
Ingulets Solar	18-Dec-18	19.5	19.1	10.0
Syvash Wind Power	11-Jan-19	30.0	30.0	9.4
Epicentr Group*	9-Apr-19	64.3	-	-
Kernel Group Pre-Export Facility*	6-Aug-19	13.8	13.8	6.1
Prometey Group*	12-Aug-19	9.2	-	-
Total		297.7	218.9	118.4

* Financing for Operation provided in USD

III. Review of Country Strategy 2015-2018: Post-Evaluation

The current evaluation was performed by the Bank's Evaluation Office as per the respective Evaluation Policy. It reveals the performance of the Bank's 2015-2018 Country Strategies. Its goal is to provide accountability to the Board of Directors and Board of Governors as well as facilitate the decision-making by the Bank's Management and Boards on the eventual update of the country strategies.

The evaluation of the respective country strategy compares the stated 2018 targets with actual results as of end of 2018 and provides a country-oriented overview and evaluation rating. The 2015-2018 Country Strategy was approved by the Board of Directors in early 2015, reflecting an in-depth independent evaluation of the

implementation of the BSTDB’s earlier strategies, conducted by the Evaluation Office. It was aligned with the objectives of the Bank’s Business Plan 2015-2018 and was therefore evaluated in that context

The implementation of the Country Strategy was consistent with the Business Plan implementation. The volume achieved exceeds the target operations by 139% with a relatively diverse span of operations. The Bank did not face severe challenges, as expected, in implementing the Strategy for Ukraine for the period of 2015-2018 and managed to cover all the target sectors, unlike previous year’s sole focus on energy. A more comprehensive overview is presented in the table below.

Table 3: Post Evaluation of 2015-2018 Country Strategy for Ukraine

2015- 2018 TARGETS (Signed Operations)			RESULTS (Signed Operations)	
Country Strategy	Sectors/Priorities	Target operations: Number signed/ EUR million	Actual operations: Number signed/ EUR million	Evaluation Summary
Ukraine	<p>1. Financial sector – priority: more intermediaries, SME and trade financing focus, microfinance and municipal lending/leasing.</p> <p>2. Energy/ Infrastructure: energy (efficiency and renewable), transport, municipal, telecom, export, oil/gas downstream, modernization, green-field;</p> <p>3. Manufacturing /enterprise/ transport: large corporate clients and investment projects/ local companies metallurgy, chemical, airports, retail outlets, warehouse facilities real estate, food processing.</p>	4/55	8/131,756836	<p>1. Volume: 239%</p> <p>2. Sector coverage: Kernel Pre-export Finance Facility (FI) CreditWest Bank-Revolving TF (FI) Kernel Capex Facility (Consumer Staples) Radisson Odessa Project (Consumer discretionary) Orexim Operation (Industrials) Novotech Operation (Industrials) Galnaftogaz development capex program (Consumer discretionary) Rengy Bioenergy solar PV project (Utilities)</p> <p>3. Conclusion: Targets exceeded over by 139%. The Bank covered its priorities/sectors well, with a good level of diversification and addressing most of the Strategy.</p>

IV. BSTDB Operational Priorities for 2019 - 2022

The Bank's role and priorities for Ukraine during the 2019-2022 period are outlined in accordance with (i) the priorities and targets laid out in its *Medium-term Strategy and Business Plan 2019-2022*¹; (ii) updates to the MTSBP 2019-2022, (iii) country needs and objectives as expressed in its national development priorities, and taking due consideration of (iv) available resources, strategies and policies of BSTDB. BSTDB will seek viable opportunities for operational activity and will closely monitor developments in the Ukrainian economy in order to stand prepared to support bankable projects. Where possible, the Bank will seek to leverage its presence by co-financing with international financial institutions (IFIs), public sector institutions and private partners, per its mandate.

The intention of the Bank is to provide support for the implementation of Government economic priorities, while being responsive to market demand. The Bank will consider undertaking activities and providing services as may advance its purpose, paying special attention to activities that promote regional cooperation, development of infrastructure, increased and diversified export of goods and services, and new employment creation. The Bank will seek to maintain consistency with the UN's Sustainable Development Goals in the context of Ukraine and its priorities and needs.

Based on the updated 2019-2022 BSTDB Medium Term Strategy and Business Plan, the Bank would expect on average to sign two to three new operations each year, for approximately € 75-85 million. Over the four year period, this implies ten to eleven new commitments (signed operations) for approximately € 320 million (a range of € 300-340 million). The Bank will insist that all operations meet criteria of sound banking principles on the one hand, and financial viability/ economic sustainability on the other hand.

These indicative targets are based on the Base Case Scenario of Growth of the updated MTSBP 2019-2022², and given appropriate circumstances and sufficient operational opportunities, the Bank would exceed this level in order to continue meeting client needs. In case of higher regional economic growth rates, an improved situation in financial markets, and above all, increased demand for Bank funding coming from private and/ or public entities active in the Ukrainian market, the Bank will welcome the prospect to exceed the projected scenario and achieve higher operational results.

A key consideration for the Bank is to increase its relevance in each Member State. Achievement of such greater prominence has both quantitative and qualitative aspects- how much the Bank plans to do, but also where it plans to do so. In line with the MTSBP 2019-2022, the Bank intends to increase its presence in key infrastructure sectors since on the one hand regional investment rates are low while country needs are high, and on the other hand such operations usually have high cooperation and development impact, and positive economic and social returns that exceed the financial returns of the particular operation. The willingness to provide sovereign guarantees (or equivalent undertakings) for such operations would greatly increase the ability of BSTDB to provide support in these high priority areas, and it improves the risk profile of BSTDB achieving substantially improved risk weightings for that portion of the portfolio.

Areas for BSTDB Financing:

Financial Sector Strategy

By developing a network of financial intermediaries in Ukraine, BSTDB intends to support Ukraine's banking sector in its contribution to the economic activity in the country. BSTDB will seek to increase the number

¹ Approved by the Bank's Board of Governors in February 2019.

² Any revisions to the MTSBP 2019-2022 may affect the indicative targets, as country specific figures might need to be revised accordingly with the overall figures

of financial intermediaries to deliver Bank products with an emphasis on SME lending and trade financing. The Bank will also explore possibilities to allocate financial resources through financial institutions with defined utilization purposes, including green energy facilities and agribusiness. For existing financial intermediaries with which there is a track record of successful cooperation, the Bank will consider increasing the exposure and/or tenor, provided they demonstrably have the risk profile and capacity to utilize such funds (and longer tenor) successfully. Where appropriate and feasible, the Bank will also consider undertaking local currency lending in order to help SME development and to contribute towards the deepening of the domestic financial market.

Other areas which will receive consideration during the strategy period, albeit lower priority, include non-bank financial institutions, including microfinance and municipal lending. Bank involvement will be determined by assessment of the potential and ‘bankability’ of such involvement, and the extent to which involvement with such institutions will play a catalytic role and provide clear demonstration effects.

Lease financing is another opportunity which the Bank will consider. The Bank will be looking for suitable partners to support the development of the leasing sector. Medium-term credit lines to leasing companies will enable them to offer their customers, among others, finance for capital expenditures on imports from other countries in the region.

The Bank will be in contact with international financial institutions, seeking ways to coordinate activities and share experiences, given the opportunities of the market.

Manufacturing and Enterprise Sector

Ukraine is characterized by a complex legal environment, which has an impact on activities of foreign investors and lenders. Structuring of financings in Ukraine requires engagement of outside legal counsel at an early stage of project appraisal and also, as a rule, involves a comparatively more extensive due diligence. In addition, the country’s regulations envisage compliance with restrictions on pricing and application of financial instruments. These circumstances make the project appraisal and approval process more expensive and time consuming. Given the above, and the availability of a developed manufacturing sector, the Bank will focus on the identification of large corporate clients and investment projects.

The primary objective in the manufacturing sector will be support of local companies in their efforts to improve efficiency of operations and modernize their technological base. BSTDB will be particularly keen to participate in transactions involving direct foreign investments by corporates from the Bank’s countries of operation, as well as in investments implemented by Ukrainian companies in the Black Sea region. Important criteria for prioritization will be the degree to which potential operations (i) support production and export of high technology products of Ukrainian origin, and (ii) provide prospects for import substitution, something that will apply for all manufacturing sectors but will be especially important for areas such as mechanical engineering, chemicals, and mining.

The Bank will support the improvement of Ukraine’s transport infrastructure, in particular seaports, as they are crucial for enhancing the country’s competitiveness and its integration into European transport networks and the world economy. The Bank will explore various ways to do so, including becoming involved in public private partnerships with other international financial institutions.

Given the BSTDB experience in Ukraine during the turbulent period since the 2008 financial crisis, including the downturn which began at the end of 2013, the Bank will make efforts to ensure the bankability of prospective operations, which ideally would also contain regional cooperation criteria.

BSTDB transport and manufacturing strategy in terms of banking instruments:

- Project Finance limited recourse transactions;
- Continuing emphasis on financing in the form of Equity and Quasi Equity instruments;

- Co-financing with other international financial institutions and foreign commercial banks;
- Work with medium- and large-scale export-oriented Ukrainian companies.

Areas of particular focus in transport and manufacturing strategy:

- Agribusiness and food processing industry;
- Agricultural production (as legal and business environments evolve to permit investment)
- Pharmaceutical industry;
- Select sectors in the chemical industry and in metallurgy;
- Development and operation of airports (and landside developments), sea terminals;
- Real estate development, including retail outlets, warehouse facilities and logistic centers;
- IT and intellectual capital;
- Other sectors with the goal of increasing private participation and enhancing business practices, corporate governance and environmental practices.

Energy and Infrastructure (E&I)

Enhancing energy security and improving energy efficiency are key policy issues for Ukraine. Attracting investments in the energy and infrastructure sectors (ENI) is therefore one of the country's key priorities.

The Bank's choice of specific new ENI investments during the country strategy period will depend, to a certain extent, on the on-going governmental priorities. In compliance with the Bank's Medium-Term Strategy and Business Plan for 2019-2022 the Bank will seek to expand its portfolio through public-sector lending and increased direct funding to sovereign-sponsored energy and infrastructure projects. Wherever applicable, and in cases of implementation of projects that are high priority for the national infrastructure, the Bank will explore the possibility of seeking the certain recourse of sovereign guarantee instruments from the Government of Ukraine. It will also be open to concession arrangements, including public private partnerships.

Notwithstanding the imperative to expand its public sector activities, the Bank's principal ENI clientele will remain private companies active in Ukraine. In terms of financing instruments, BSTDB will focus on medium/long-term corporate/project finance lending although it will retain the possibility of providing equity finance where conditions and strategic considerations warrant doing so. The Bank will also work in cooperation with other international financial institutions, commercial banks and export credit agencies in joint energy and infrastructure sector projects as an important source of institutional knowledge transfer, risk sharing and operational co-financing.

Potential new ENI lending and operations of the Bank will focus on:

Electricity generation and transmission

Electricity systems in Ukraine are exposed to various deficiencies including, among others, obsolete thermal and hydro generation facilities, outdated power transmission infrastructure and relatively low levels of renewable energy generation in the overall energy mix. Considerable investments in the electricity sector are therefore required to support economic growth, energy security and other governmental policy objectives.

BSTDB activities will aim to support the rehabilitation of the current power generation facilities including, among others, investments in co-generation, thermal and hydro-power plants. Where there exists a suitable regulatory/legal framework, the Bank will also support expansion of other renewable energy generation capacities.

Another area of the Bank's ENI activities will include lending (including to state entities) for modernization of the power transmission infrastructure in the country in order to improve electricity transmission safety, overall energy efficiency and synchronization with neighboring electricity markets.

Natural resources, transportation and distribution

Despite considerable potential to cover gas consumption from domestic production, Ukraine remains dependent on external gas supplies and possesses a gas transportation and distribution infrastructure which is characterized by low energy efficiency.

In support of the government's priorities to enhance energy transport systems and their efficiency, BSTDB will seek to provide funding to key private and state entities for operations aiming to upgrade networks and diversify energy sources.

The Bank will consider providing funding for rehabilitation of the gas transit and storage infrastructure along with other international financial institutions in order to improve energy efficiency, transit and storage capabilities.

BSTDB will also consider activities that aim to increase both domestic upstream and downstream operations aiming to increase energy autonomy and to improve environmental safety and standards.

Petrochemicals distribution infrastructure

BSTDB will aim to provide financing packages to strengthen the infrastructure for petrochemicals' distribution and to expand access to high-quality fuel services across the country.

Telecommunications and information technology

The Bank will consider providing funding for projects involving upgrade, development and modernization of telecommunications and information technology infrastructure, in order to ensure competitive market standards in the country.