Strategic Orientations of the Ukraine Investment Framework 2024-2027

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i) Introduction

On 24 February 2022, Russia launched a full-scale military invasion of Ukraine, with devastating consequences. In addition to the untold impacts on Ukraine's population, Russia's war of aggression has caused extensive damage to infrastructure, services and ecosystems across the country and the wholesale destruction of cities and towns in some parts of Ukraine. Two years into the war, direct damages are estimated at more than USD 152 billion, and reconstruction needs at USD 486 billion, as of 31st December 2023[1] or around 3 times Ukrainian's GDP.

Before stabilising in 2023, the economic situation deteriorated sharply in 2022. Real GDP fell by 29% and poverty rate increased from 5.5% to 24.1%. In this context, 75% of the population reported a decrease in their income in 2023 compared to before the war.

Russia's war of aggression also caused a loss of access to international financial markets and a significant drop in public revenue, while military spending and public expenditure to address the humanitarian situation and to maintain the continuity of State services have increased markedly.

A major global financial effort is required to support Ukrainian authorities and business during and after the war to rebuild the country and provide new opportunities to its citizens. Investment needs are enormous and should not wait until the end of the war.

As of March 2024, the EU and its Member States have mobilised a total of EUR 98 billion since the beginning of the Russian invasion, out of which EUR 81 billion were devoted to humanitarian, financial and military assistance to Ukraine, and about 17 billion to host Ukrainian refugees.

On 29 February 2024, the European Union adopted the Regulation establishing the Ukraine Facility ("the Ukraine Facility Regulation")[2]. The Ukraine Facility will provide stable and predictable financial support to Ukraine for the period 2024 – 2027.

Pillar II of the Ukraine Facility – the **Ukraine Investment Framework** - is designed to attract investments for Ukraine's recovery, reconstruction and modernisation in line with the Ukraine Plan. It aims at enhancing access to finance and supporting public and private investments.

While public investments are more than ever necessary especially in view of the need for infrastructure repairs and development, private investments will be key to modernise and diversify Ukraine's economy.

This will ensure the rebuilding of Ukraine's economy and its long-term prosperity. Investments at scale from private companies are necessary to bridge the financing gap that public money alone will not cover. In addition, private investments can also bring expertise and best practices from the global market, helping to improve the efficiency and effectiveness of Ukraine's businesses and public institutions.

Working together with the Ukraine Investment Framework, the Ukraine Plan will contribute to creating conditions for the Government to manage public investments in a strategic and optimised manner, and for businesses to thrive by providing the regulatory certainty and an improved business environment.

[1] Ukraine - Third Rapid Damage and Needs Assessment (RDNA3): https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099021324115085807/p1801741bea12c012189ca16d95d8c2556a

[2] Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024 establishing the Ukraine Facility

The implementation of early reforms under the Ukraine Plan and, through the accession process, the progressive alignment of Ukrainian legislation and standards with those of the EU will offer new opportunities for businesses and Ukraine by increasing the integration of Ukraine to the EU single market and providing a more predictable framework for investments. The European Council decision of 23 June 2022[3] to grant candidate country status to Ukraine and the European Council decision of 14 December 2023[4] to open accession negotiations with Ukraine are clear positive signals for investments in Ukraine. This positive track was confirmed by the European Council of 21-22 March 2024, which welcomed the progress of Ukraine in advancing on the necessary reforms on their EU path and called for the swift adoption of the negotiating framework.

Conversely, the Ukraine Investment Framework will contribute to the implementation of the Ukraine Plan and to Ukraine's EU accession path, among others by bringing Ukraine's infrastructure and businesses closer to the EU standards and norms, by improving their competitiveness, and by fostering new business development and entrepreneurial activity to the benefit of the economy of the European Union and Ukraine.

The Ukraine Investment Framework will build on the Team Europe approach, leveraging the strengths of the EU and of its Member States in terms of institutions and businesses that can be collectively mobilised for the purpose of the reconstruction of Ukraine. The implementing partners for the Ukraine Investment Framework include a wide range of European and international development banks and financial institutions.

The present document contains the Strategic Orientations that will guide the operations of the Ukraine Investment Framework. First, it describes the main elements of the legal framework under which the Ukraine Investment Framework will operate, and its overarching principles. Then it describes the priorities of the Ukraine Investment Framework in line with the Ukraine Plan. This includes both the strategic investment areas and the policy objectives that apply to all investment areas and will be used to guide the investment strategy as well as the assessment of individual projects performed by the European Commission.

ii) Legal framework and implementing partners

The Ukraine Investment Framework is established by the Ukraine Facility Regulation as part of the Ukraine Facility. As set out in Article 28 of the Ukraine Facility Regulation, under the Ukraine Investment Framework the Commission shall provide support to Ukraine in the form of budgetary guarantees, financial instruments or blending operations, as well as technical assistance linked to its implementation.

The Ukraine Guarantee and financial instruments supported under the Ukraine Investment Framework shall be implemented in indirect management pursuant to Article 62(1), first subparagraph, point (c), of the EU Financial Regulation[5]. According to this provision, the Commission can entrust budget implementation tasks to entities that demonstrate a level of financial management and protection of the EU's financial interest equivalent to that of the Commission (verified by carrying out a Pillar Assessment of the entity), implying therefore that implementing entities will abide by these same principles.

[3] European Council Conclusions, 23-24 June 2022; EUCO 24/22.
[4] European Council Conclusions, 14-15 December 2023; EUCO 20/23
[5] Regulation (EU, Euratom) 2018/1046

The eligible counterparts for the purposes of the Ukraine Guarantee and the eligible entrusted entities for the purpose of financial instruments ("the implementing partners") are those referred to in Article 30(2) of the Ukraine Facility Regulation.

The Commission will promote close coordination with support implemented in the framework of the European Fund for Sustainable Development Plus (EFSD+) established under Regulation (EU) 2021/947, as well as other relevant instruments, such as the Connecting Europe Facility, among others.

iii) Overarching principles

1. Key transversal principles

The Commission's management of the Ukraine Investment Framework is subject to applicable Union law, including the principles of sound financial management, transparency, proportionality, equal treatment and non-discrimination as resulting, inter alia, from the Treaty on European Union, the Treaty on the Functioning European Union and the Financial Regulation 2018/1046.

In managing the Ukraine Investment Framework, the Commission will promote a transparent, objective and merit-based competitive environment whereby only investment proposals that are compliant with EU and Ukrainian priorities (as reflected in the Ukraine Plan) and Ukraine Public Investment Management and that provide the highest financial added value are selected to receive EU support.

In particular, the Commission will take into consideration the respect of key horizontal principles:

- The Ukraine Investment Framework shall abide by the best practices in public investment as resulting from applicable Union Law, *inter alia*, principles of sound financial management established by Financial Regulation 2018/1046 and the principles of economy, efficiency, effectiveness, additionality and no double EU support, consistency with State aid rules, and avoiding distortion of competition.
- The Commission will use objective assessment criteria that will be shared with implementing partners, ensuring that they compete on equal footing.
- The Commission is committed to the principle of fair treatment of all implementing partners, in an inclusive approach, while promoting cooperation between them and taking due account of their capacities, added value, comparative advantage and experience.
- Preparation of projects to be considered for support under the Ukraine Investment Framework shall be based on close coordination and collaboration between the implementing partners, the Commission, the EU Delegation in Ukraine and Ukraine government authorities from the pipeline formation to the implementation.
- The Commission will take into consideration – to the extent that information is available – relevant parameters of best in-class projects supported by public and private investors; Public-Private Partnership investments initiatives; investments carried out by International Financing Institutions within their private investment portfolios, and activities of other donors and financial institutions. The Commission may request any relevant information from implementing partners about their non-EU-supported operations in Ukraine.
- Implementing partners will use rigorous impact measurement and management systems and ensure comprehensive impact reporting to the EU.
- An active promotion of EU visibility will be required.

2. Additionality of EU support

To maximise the impact of scarce public resources, the EU should contribute only if and to the extent necessary for the achievement of the relevant policy objective and of the desired impact. The EU contribution should not substitute but crowd-in private investors by providing the right level of support.

The assessment of the proposals is carried out on the basis of the additionality that the EU contribution will bring in terms of benefits and results, notably as regards development impact in comparison to what would have been achieved without the EU contribution.

The assessment involves quantitative considerations of the cost-effectiveness, efficacy and efficiency of the EU contribution for the achievement of relevant policy objectives, and notably for maximising positive impact on the final beneficiaries.

It also considers the capacity of the programme to contribute to results that are not easily quantifiable, such as the introduction or increase in the quantity and quality of services available in the targeted market and contribution of the envisaged investments towards the objective of Ukraine's EU accession.

Blending operations and guarantees will be complementary and serve distinct purposes. The choice of instrument must be made with a view to correcting the market failure or other important systemic failures which it seeks to address. For instance, where the underlying problem is lack of access to finance, support should normally take the form of a guarantee, meaning that blending may not be necessary.

Guarantees will reduce risks for implementing partners and/or investors to increase investment capacity. Depending on the nature of the investment project, the Ukraine Investment Framework could provide blending and technical assistance in combination with guarantees. Blending will be limited to cases where clear instances of market failure affect the economics of the project and necessitate such concessional EU contributions.

EU investment grants and some EU Financial Instruments are a highly concessional form of support, and MidCaps and large corporates do not represent a priority group for the use of Ukraine Investment Framework's resources. As such, they should remain a priori ineligible for investment grants. However, some flexibility could be considered in cases of investments with strong and measurable impact in the context of clearly demonstrated market failures. Moreover, any potential concessional funding should have a strong demonstration effect vis-à-vis the rest of the economy.

The envisaged application of the 'minimum necessary concessionality' principle is further illustrated in the below table.

Financing source	Market failures	Output
Local financial sector is able to provide requested finance at acceptable terms	No major market failure	Finance provided by local financial sector

International Financing Institutions (IFI) / Development Financing Institutions (DFI) financing	The local financial sector cannot provide the needed financing or not at affordable conditions. This may be due to several possible reasons: novelty of process / product, no credit history, lack of collaterals, amount required, unfamiliarity with needed financial products	The IFI/DFI provides financing at / or slightly below market conditions
Support through blending operation	The IFI/DFI cannot provide the needed financing at affordable conditions.	The Union provide guarantees to mitigate the risk of IFI / DFI.
	The IFI/DFI cannot provide the needed financing at affordable conditions. A guarantee is insufficient to ensure the viability and the financing of the project.	If really justified, blending operation can de-risk the investment.

Implementing partners should be able to demonstrate the existing market failure and justify the need for guarantees, blending, or other financial instruments through a detailed analysis based on relevant market data. After a steep decline in 2022 following the Russian full-scale invasion, the economy has partially recovered in 2023 thanks to stronger fiscal stimulus, slowing inflation and continued international aid. Although return to pre-war activity will take time, the Commission expects a gradual economic recovery that will also be supported by fiscal stability, the progressive introduction of reforms and the prospect of EU accession. This means that market failures are also expected to evolve and decrease over the implementing period, though the future developments are uncertain. This should be taken into account by implementing partners in the justification of their requests.

iv) Policy priorities

1. Objectives of the Ukraine Investment Framework

The Ukraine Investment Framework is expected to contribute to the general and specific objectives of the Ukraine Facility, as set out in Article 3 of the Ukraine Facility Regulation, address priorities identified in the Ukraine Plan and support its objectives and its implementation. It must also abide by the general principles described in Article 4 of the Ukraine Facility Regulation.

The present Strategic Orientations reflect and further develop these objectives, principles and priorities. The following sections describe elements that apply across sectors and that will be taken into account to steer the overall orientation of the Ukraine Investment Framework and to assess individual proposals submitted by implementing partners. Then, they describe more specific priority investments areas identified as particularly relevant under the Ukraine Plan.

2. Horizontal considerations applying to all sectors:

a. Ukraine priorities

The Ukraine Investment Framework will be deployed in consultation with Ukrainian authorities. Public projects supported under the Ukraine Investment Framework will be consulted with the Ukrainian authorities and be aligned with Ukraine's priorities, as expressed in the Ukraine Plan to be further developed in the reform of public investment management, Ukraine's identified priority recovery needs, identified in the Third Rapid Damage and Recovery Needs Assessment (RDNA3) report, and Ukraine's relevant national strategies. Ukraine is currently working on the implementation of a roadmap for reforming public investment management. Ukraine will prioritise planning of public investments based on strategic priorities and the medium-term budget perspective and transparent and economically justified selection of investment projects. On that basis Ukraine will develop a Single Project Pipeline for public projects that will contribute to the implementation of the Ukraine Investment Framework. Such process should not be detrimental to the decentralisation.

b. Leave no one behind: underserved and vulnerable groups, war-affected & de-occupied territories

The war has devastating consequences for the Ukrainian population, further exacerbating already existing vulnerabilities. The Ukraine Investment Framework will be guided by the leave-no-one-behind principle. It will contribute to addressing the needs of Internally Displaced Persons (IDP) and returnees and veterans, and the specific needs of the regions that have suffered the most from the Russian aggression. It will help address social challenges stemming from the war, including for specific groups such as war veterans, IDPs, single parents, women, children and youth, persons with disabilities, older people, LGBTIQ people, minorities and persons in vulnerable situations. It may in particular facilitate the financing of businesses and livelihoods owned by vulnerable persons or supporting their integration into employment. The definition of these groups for the purpose of the implementation of operations under the Ukraine Investment Framework should be based to the maximum possible extent on Ukraine's own policies and legislation.

The issue of re-integration of veterans has been a major social and economic challenge for Ukraine since 2014. About 1.2 million persons in Ukraine currently have veteran status. Their number is projected to increase, potentially reaching up to 5 million concerned by national veteran policy when the war ends. The sustainable reintegration of these veterans into civilian life is not only a post-war concern but also a pressing issue during the ongoing hostilities.

IDPs constitute another group that deserves a specific attention. At the end of 2023, more than 3.7 million persons were registered as IDPs, 61% being women. The Ukraine Investment Framework will contribute to gender equality and women's empowerment.

The allocation of resources should be based on needs and appropriately balanced geographically. Regional approach towards territories that are underserved and most suffering from the effects of the war is a priority. Large parts of Ukraine's territory have suffered from Russian occupation as well as heavy aerial bombardment, but not in a homogenous manner. Correspondingly, the Ukraine Investment Framework also aims at supporting the regions directly affected by the war and may develop incentives for investments to take place in de-occupied areas or in areas closer to the frontline.

c. Do no harm: environment, climate and biodiversity

Before the war, Ukraine's economy was very carbon-intensive and dependent on fossil fuels, dominated by industrial production at the bottom of the value chain, and outdated infrastructure. Other challenges faced by Ukraine included environmental governance, pollution reduction and control (industrial pollution and industrial risks, air, water, chemicals), waste management, nature protection, vulnerability to climate change, and lack of administrative capacity to implement and enforce environmental and climate legislation. Russia's armed aggression is further aggravating environmental problems in Ukraine, with damages inflicted on environmental infrastructures and natural areas at an unprecedented scale.

In line with the objectives of the Ukraine Facility, the Ukraine Investment Framework shall contribute to develop and strengthen environmental protection, a sustainable and just green transition in all economic sectors, including the transition towards the decarbonisation of its economy.

A starting point for the Ukraine Investment Framework is to maximise positive contributions towards an environmentally sustainable, climate resilient and low carbon development. These efforts are not limited to the support of specific sectors or specific projects contributing to the green transition - as also described below in more details among the strategic areas for investments - but should be taken into account in the overall steering of the Ukraine Investment Framework and across all economic areas. The Ukraine Investment Framework will be guided horizontally by the principles of 'do no harm' and the sustainability mainstreaming approach underpinning the European Green Deal. This implies that investments supported by the Facility should not have any significant adverse impacts on the environment or on climate. The criteria used for the 'do no harm' assessment include impacts on climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

At least 20 % of the overall amount corresponding to support under the Ukraine Investment Framework as well as investments under Pillar 1 of the Ukraine Facility shall contribute, under conditions of a war-torn country, to climate change mitigation and adaptation, environmental protection, including biodiversity conservation, and to the green transition.

In line with the Ukraine Facility regulation, the Ukraine Investment Framework shall not support activities which are incompatible with Ukraine's National Energy and Climate Plan or with Ukraine's nationally determined contribution under the Paris Agreement, which promote investments in fossil fuels or cause significant adverse effects on the environment, the climate or biodiversity, unless such activities or measures are strictly necessary to achieve the objectives of the Ukraine Facility and are accompanied by measures to avoid, prevent or reduce and, if possible, offset those adverse effects.

d. Development of Micro, Small and Medium Sized Enterprises' (MSMEs)

Access to long-term sustainable financing has been identified as one of the most significant obstacles to the survival and recovery of Ukrainian SMEs. Especially MSMEs in vulnerable territories, as well as young and innovative MSMEs are largely cut off from external financing sources due to the heightened credit risk as perceived by financial institutions. Local SMEs that can still access credit, face significantly higher than normal risk premium and collateral requirements.

In such operating environment, providing EU-backed support to implementing partners allowing to unlock lending to micro-enterprises and SMEs, including social enterprises, is crucial to support their survival and contain the impact of the war on the private sector. Such support can be made through financial tools which have as an objective to reduce the risk involved in the lending operations of Ukrainian banks.

The Ukraine Investment Framework will build on valuable expertise and the guarantees and blending already deployed in Ukraine in the past years under EFSD+ and Neighbourhood Investment Platform (NIP) and benefiting SMEs.

Financial support to SMEs under the Ukraine Investment Framework will complement efforts made by Ukrainian government that identified support to SME as a clear priority. SME support is also at the core of the Ukraine Plan. The Ukraine Plan foresees the update of the SME strategy in Ukraine designed to provide entrepreneurs with access to financing for SMEs, which includes reducing and simplifying regulations, implementing business consultation mechanisms, facilitating SME procurement, encouraging the greening and digitisation of SMEs, promoting entrepreneurship and exports, addressing issues related to the access to engineering networks, as well as support for the creation of industrial parks.

In line with article 28(6) of the Ukraine Facility Regulation, to facilitate the private investment and the development of small and medium businesses, it is necessary to dedicate at least 15% of the allocation provided by the Ukraine Guarantee to supporting start-ups and MSMEs.

e. Focus on capital expenditure

The deterioration of the economic situation had a negative impact on the liquidity situation of Ukrainian businesses. The Ukraine Investment Framework will support both capital expenditures (CAPEX) and operating expenditures (OPEX). However, it will prioritise CAPEX whenever possible, taking into account its higher expected economic rate of return.

The need for investments - both public and private - was already significant in Ukraine before Russia's full-scale invasion due to a structural lack of investments. The destruction of infrastructures that need to be rebuilt in a sustainable way, the reorganisation of Ukrainian economy and supply chains call for a massive effort in investments. On the short term, CAPEX will have significant impact on value chains creating activities beyond their sectors. On the long-term they will have a more beneficial impact on the economic growth due to the multiplier effect of investments. More importantly, they will increase the competitiveness of Ukrainian economy and its better integration in global and European value chains. They will support the creation or the development of new strategic activities for Ukraine. CAPEX will also increase the bankability of Ukrainian companies by increasing their tangible assets.

The focus on CAPEX is in particular relevant for blending. Liquidity constraints should be addressed by loan instruments that usually can be supported using guarantees. The use of grants or equivalent financial incentives should be limited to bridging the economic viability gap of carefully selected investments generating significant positive externalities.

For the same reasons, refinancing should be strictly restricted under the Ukraine Investment Framework to stimulate new investments.

f. Sustainable regional development and decentralisation

The decentralisation reform is widely regarded as one of the most successful reforms in Ukraine since 2014. As a result, Ukraine's subnational governments (i.e. amalgamated communities, municipalities, districts and regions) play a pivotal role in public investments, with municipalities acting as agents of local self-government. Between 2015 and 2020, direct investment by subnational governments increased both in nominal and in real terms (147% and 26%, respectively), and in 2020 the share of subnational investment in total public investment was 68%, - well above the 2019 EU-28 (54%) and OECD (56%) averages. In the same period, the subnational expenditure on the three functional areas of education, economic development and general public services likewise saw a significant increase.

The responsibility of territorial communities in key service areas and the significant share of direct public investment made by subnational governments confirm that subnational governments will be crucial actors in the recovery and reconstruction effort. As a result, Ukraine's subnational governments (play a pivotal role in public investments. At the same time, the impact of the war is causing serious strain for many subnational governments to fulfil their tasks and responsibilities.

The Ukraine Investment Framework will contribute to the investment needs of the subnational authorities of Ukraine and municipalities in accordance with the multi-level governance principle and taking into account a bottom-up approach. This will include increased investments by IFIs in municipal projects, the provision of investment loans to municipal companies in sectors such as heating, housing, water, waste, etc., and support to general capacity building that will enable subnational governments to properly prepare and implement investment projects.

Public projects supported under the Ukraine Investment Framework should be consulted with the Ukrainian authorities and be aligned with their priorities, as expressed in the Ukraine Plan, and relevant national strategies.

g. Fostering open market economy and limiting influence of oligarchy

In line with the recommendation of the European Court of Auditors of 2021, the European Commission has been requested to avoid supporting (via projects, loans and guarantees) companies under oligarchic influence that create impediments to free and fair competition.

The Ukraine Investment Framework should promote free and fair competition, including transparent and competitive public procurement, support the entry of new players into the economy and avoid contributing to an unsound market concentration.

h. Alignment with EU standards

To the extent possible, the Ukraine Investment Framework should support the adoption of relevant EU rules and standards. This will contribute to rebuilding a modern, sustainable and European Ukraine. Support extended through the Ukraine Investment Facility should be consistent with Ukraine's evolving commitments as part of the country's European integration process.

i. Demining & mine action efforts

Approximately 156,000 square kilometres of territory, including 14,000 square kilometres of maritime waters, require surveying for the presence of explosive hazards. Among these, 142,000 square kilometres are affected by active hostilities, subjected to missile and bomb strikes, as well as territories under temporary occupation. The clearance of explosive ordnance and decontamination is an essential precondition for a safe rebuilding, resumption of service provision, and return to normality in Ukraine, in particular in the most affected regions.

Several sectors are heavily affected by mine contamination. Demining in agriculture is essential to enable safe cultivation and land use, which can help boost the region's food security and economy. Roads, railways, and bridges have been mined in war-affected areas, disrupting transportation and hindering the movement of goods and people.

Demining is necessary to restore vital land and sea transportation routes for economic recovery. Many residential areas across Ukraine are contaminated with mines and unexploded ordnance, making it unsafe for civilians to return to their homes, or for children to go to schools. Demining and decontamination are crucial for the return of displaced populations and to revitalise communities. Demining should take into account the recommendations of the Meetings of States Parties to the Anti-Personnel Mine Ban Convention[6].

The Ukraine Investment Framework should support survey and demining of land, water and forestry areas of all types, including incentives for the private sector to undertake the demining activities, with special attention to financing key stages of de-mining, including initial assessment, technical and non-technical surveys, clearance, as well as mine risk awareness measures. Measures could include schemes to support the demining-industry, destruction of explosive hazard, investment in technological innovation, financial schemes for farmers and agri-business.

3. Strategic areas for investments

The Ukraine Investment Framework will cover an ample spectrum of investments across different areas, as delineated in the Ukraine Plan, in line with the policies and regulatory framework of the European Union. The allocation of resources should be sectorally balanced.

a. Access to finance/Financial markets for economic resilience and recovery

Ukraine's financial sector is a major growth and stability factor for the economy, but its full potential is yet to be realised. The banking sector remained resilient in the face of the war though risks and challenges remain significant. Alternatives to bank financing are still limited and capital market infrastructure is fragmented, pointing to significant opportunities for the non-bank financial sector development. Ukraine's insurance market is still emerging and aims to meet international standards. Access to affordable finance and relevant financial products, risk-mitigation instruments as well as non-financial assistance will be key in Ukraine's recovery and reconstruction.

The Ukraine guarantee may support access to affordable finance, de-risking instruments and guarantees, local currency financing, addressing the impact of adverse exchange rate movements, private equity and impact investment, microfinance, etc. targeting specific segments of the economy with growth potential as well as underserved segments, including vulnerable groups and territories under distress, with particular attention to MSMEs at various stages of development.

The Ukraine Investment Framework may support Ukraine's vibrant entrepreneurship ecosystem, including provision of private equity, seed and venture capital investment and accelerators for start-ups and innovative companies, as well as investment in deepening and expanding digital financial services, fintech and digitalisation of MSMEs.

The Ukraine Investment Framework may – in synergies with existing initiatives - support systemic approaches to war insurance, supporting accessible war insurance, including political risk insurance, property and freight insurance offering in Ukraine, working with global as well as local insurance and re-insurance players, helping unlock Foreign Direct Investment as well as local investment into Ukraine.

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[6] "Green Implementation: Integrating Environmental Considerations into the Implementation of the Convention" President's Paper for the Twenty-First Meeting of States Parties to the Anti-Personnel Mine Ban Convention, 2023.
https://www.apminebanconvention.org/fileadmin/_APMBCDOCUMENTS/Meetings/2023/21MSP-President-Paper-Green-Implementation.pdf

The Ukraine Investment Framework may also work with the Export Credit Agencies of EU MS as well as of Ukraine to support provision of trade finance, guarantee delivery of goods, including capital goods much needed for Ukraine's reconstruction as well as provision of credit used to boost trade-related activities.

b. Human capital & social sectors

The war has caused significant damage to Ukraine's human capital resulting in immense casualties. Simultaneously, Ukraine needs to tackle a sharp deterioration in living conditions due to the destruction of critical infrastructure, residential infrastructure, and social and administrative services infrastructure, as well as labour market and demographic challenges, including significant numbers of refugees and reduction in the labour force.

For Ukraine, it is crucial to halt the erosion of human capital and create the conditions that will help put both human capital and the economy back on a growth path. Central to this effort is the restoration and improvement of health and education and training services, getting students back to schools, providing access to the labour market through well-functioning employment services, ensuring decent work, and housing opportunities. This includes reaching out to most vulnerable groups, including people who have experienced mental and physical trauma.

However, it is not only a question of restoring human capital to the pre-war levels; but to approach the challenge with a view to laying the foundation for an accelerated and continuous development of Ukraine's human capital in a modernised society and create a labour market that can sustain Ukraine's sustainable economic growth in the future. This means considerable investments will be required over the coming years in modernization of areas such as health, including mental health, social protection and social housing, education and training (including vocational education and training), public employment services, research, innovation, technology, and cultural and creative industries, helping everyone reach their full potential.

Education

In the field of education, the Ukraine Investment Framework may support enhancing education facilities (including vocational education and training institutions) through investments in restoring and improving the physical infrastructure at all levels, improving security of the physical infrastructure and enabling uninterrupted access of displaced population to education.

The Ukraine Investment Framework may also support improving the efficiency and effectiveness of learning and knowledge-creating processes, teacher competencies, equipment and technologies, including Edtech, required to effectively facilitate learning processes at all levels ensuring adequate collection and processing of data to support evidence-based process for continuous improvement.

The Ukraine Investment Framework may contribute to enhancing the skilling, upskilling and reskilling in a variety of domains to help boost the post-war recovery, establishing training and practical vocational and technical education.

Social protection/care economy

The Ukraine Investment Framework may support social protection efforts in Ukraine, including family-based and foster care and community-based care facilities for people with disabilities, children, elderly, among others. It may include supporting the delivery of social services, with the possible involvement social economy actors. The improvement of rehabilitation services for people with disabilities could also be supported, as well improving access to social services to meet the needs of low-mobility population groups.

Health

In the field of health, the Ukraine Investment Framework may contribute to strengthening the health care system, through restoration and upgrading of damaged health care facilities at all levels, introduction of telemedicine and mobile health services, the provision of modern medical equipment for diagnostic analysis and treatment, the development of tailored treatment and care protocols, including for people with disabilities and mental traumas.

The Ukraine Investment Framework may also help improving the efficiency and effectiveness of health care services, through investments in the development of competencies of health care service providers, the development of IT-infrastructure and digital information management systems, including digital patient registers and records, the development of more efficient and effective management structure and work-flow processes, and the strengthening of monitoring, data collection and analysis, quality assurance and regular reflection on how to ensure continuous improvement.

Housing

In the current situation of limited and decreasing supply of affordable housing, the Ukraine Investment Framework may support initiatives that will increase the housing supply for all – including the most vulnerable segments of the population, investments in restoring residential facilities, facilitating the implementation of new housing projects in accordance with European best practice that comply with standards for smart, green and energy efficient housing.

The Ukraine Investment Framework may also focus on accelerating investments related to transformation of building materials and modular production processes, development finance for modular energy efficient production and energy efficient construction, and improvements to systems of planning, construction, development of non-commercial municipal housing schemes, building management and maintenance.

c. Energy

The energy supply sector in Ukraine plays a pivotal role in the country's recovery and sustainable economic growth. Its rehabilitation and development will significantly contribute to Ukraine's overall economic uplift, creating opportunities for the recovery of all sectors of the economy, generating employment and increasing foreign investment potential in related industries. However, the sector is also responsible for a large share of Ukraine's total greenhouse gas emissions. Ukraine must transition to a sustainable, low-emission economy, with the energy sector in its core. The rebuilding and development of Ukraine's energy sector shall be based on the principles of the Energy Strategy of Ukraine until 2050, as well as the National Energy and Climate Plan, when available.

The aftermath of Russia's invasion has severely impacted Ukraine's energy sector, resulting in significant damage of power generation and transmission capacity. The Ukraine Investment Framework aims to contribute to its recovery, including repairs and rehabilitation of the existing damaged or destroyed energy generation, transmission and distribution infrastructure, restoring access to electricity supply for critical social infrastructure, ensuring energy access for citizens and enable (re)building efforts, with a clear focus on enhancing energy efficiency and renewable energy generation capacities.

The Ukraine Investment Framework may support strategic re-orientation of the energy transmission infrastructure, including cross-border links with the EU network. Modernising interconnections, transmission, and distribution infrastructure increases the potential of cross-border exchange and allows for the connection of new sources to the grid, promoting overall energy security. Strengthening the energy system's security and defence equipment against cyber, natural, and military threats, along with modernising the electrical grid and digitalisation, is crucial to address vulnerabilities and increase its effectiveness. For this purpose, projects in the electricity sector have to be compliant with the requirements of ENTSO-E (association of European electricity transmission system operators) and the transmission system development plan for 2023- 2032 of the Ukrainian electricity transmission system operator Ukrenergo.

The reconstruction process offers an opportunity for Ukraine to leapfrog to a much more sustainable energy system, consistent with the objective of phasing out coal by 2035. Balancing short-term needs with long-term goals, the Ukraine Investment Framework may simultaneously underpin Ukraine's green transition plans by de-risking private and public investments in reducing energy intensity of Ukraine’ s economy, catalyzing a low-emission, climate-resilient recovery. This includes promoting systematic implementation of energy efficiency measures, as part of the large-scale reconstruction efforts in all sectors of the economy and especially in industrial, residential and public infrastructure sectors. Priority should also be given to investments in a more efficient and decarbonised municipal district heating sector, which at present is large in size, albeit dilapidated and under maintained. A well-functioning district heating system is both cost efficient and environmentally sustainable.

The Ukraine Investment Framework may support the development, integration, and localisation of production of renewable energy, including wind power, solar, hydropower, biomass (taking into account the sustainability of forest management), biomethane and other biofuels, and renewable hydrogen and other synthetic gases, as well as energy storage capacity.

Support may be provided to the decarbonisation efforts in the business sector, notably in the heating and cooling, construction and other highly polluting industrial sectors, in order to help them move towards sustainable alternatives to ozone-depleting substances and fluorinated gases and address unintentional leaks of greenhouse gases, such as methane.

d. Transport

The rehabilitation, development, and modernisation of Ukraine's transport sector is crucial for sustaining a competitive, market-oriented economy and fostering job creation and economic growth across all regions, allowing for displaced populations to return. The transport sector, already burdened with significant maintenance debt, has suffered extensive direct damage due to the war, as evidenced by the Rapid Damage and Needs Assessment, remains affected by poor connectivity with neighbouring EU Member States.

The Ukraine Investment Framework may address damages to critical local and national transport and logistics infrastructure, including expansion and modernisation of essential road and rail connectivity, civil aviation, urban transportation, and logistics capacity for improved safety across all modes of transport, access to basic services and mobility of people, goods, and services.

The Ukraine Investment Framework may support upgrading and expanding connectivity with the European Union, with specific focus on the extended Trans-European Transport Network for road, rail and inland waterways, focusing on interoperability, the modernisation of freight and logistics systems, the removal of infrastructure and non-infrastructure bottlenecks, and increasing capacity and efficiency of border infrastructure and equipment for cross-border connectivity.

To better integrate Ukraine into global value chains and facilitate freight and passenger connectivity, the Ukraine Investment Framework may also support multimodality and intelligent transport system, enhancing multimodal container transportation, upgrading port infrastructure, including repair and expansion of inland waterways, and repair and development of airport infrastructure and aviation services.

In line with the focus on green investment within the Ukraine Investment Framework, support may also be provided to operations contributing to a transition to decarbonised transport solutions, particularly in public transportation.

Additionally, the Ukraine Investment Framework may promote the development of digital interoperable systems and the deployment of intelligent transport systems with a view of improving safety and efficiency. The Ukraine Investment Framework will aim at improving transport safety and in particular road safety both within and outside cities.

e. Agri-food

Agriculture is an important source of value creation, largely sustaining Ukraine's economy before and during Russia's invasion, with spillover effect to other sectors such as transport and logistics. Before the war, Ukraine's agri-food sector accounted for around 20% of the country's GDP, 40% of export and 17% of its formal labour force, with an extensive potential for growth. Agriculture has also been an important source of livelihood for millions of Ukrainians living in the rural areas.

The impact of war on the agricultural sector is immense. The sector witnessed over 30% decrease in total production compared to pre-war situation, with up to 40% of the rural population in the most agriculture-dependent regions stopping or reducing their activities. Direct losses include damage to physical infrastructure and assets, including contamination, mining, indirect losses stem principally from disruptions in trade and export flows and improper storage, inability to access inputs and cultivate crops.

The damages will likely affect Ukrainian agri-food sector for the years to come. At the same time, it holds large potential to drive overall economic recovery and growth, generate sustainable jobs, and support rural communities of Ukraine. In order to fulfil its potential, further alignment of the sector with EU standards and rules, as well as moving up the value chain, modernisation and compliance with environmental requirements will be essential.

The Ukraine Investment Framework may contribute to addressing the fall-out of the war through supporting decontamination and demining and rehabilitation of damaged infrastructure and production capacity, processing and storage, focusing on sustainable practices.

The rehabilitation efforts supported by the Ukraine Investment Framework may include irrigation and drainage infrastructure and vital water catchment structures, as well as improvement and expansion of the irrigation systems, taking into account availability and fair distribution of water resources to address immediate needs. The Ukraine Investment Framework may also support greening the agri-food sector, notably to increase the climate resilience of the sector.

The Ukraine Investment Framework may contribute to rebound of the agri-food production through scaling-up access to finance to farmers registered in the State Agrarian Register. The support under Ukraine Investment Framework will target small- and medium-scale agricultural producers, with particular focus on the smallest farms and restoring food security and self-sufficiency in front-line and de-occupied territories and other vulnerable communities. Small and family farms, are of key importance for sustainable rural development, creating local value chains, employment and income to rural families and contributing to the socio-economic fabric of rural areas.

The Ukraine Investment Framework support in access to finance for large-scale producers will be limited to cases where additionality of EU financing can be clearly demonstrated. Larger scale producers would have necessarily to be registered in related food safety registries, meet national standards before investment. Project implementation would lead to adoption of environmental and/or animal welfare EU-standards' requirements. Assets with long service life should not come in conflict with applicable EU standards in particular during their economic lifetime to avoid premature end of service. Furthermore, the supported investments shall avoid strengthening vertical integration of value chain of a single entity, increasing concentration of operations, and decreasing cooperation with smaller producers. Additional requirements for support to agri-food sector may be stipulated in a specific sector guidance and included as an annex to the Strategic Orientations.

The Ukraine Investment Framework may support producers in higher value-added export-oriented subsectors, such as organic food production, horticulture, viticulture and processing industry, including dairy, livestock and poultry processing, oilseed crushing and refining, grain milling, protein isolation facilities, biogas and biomethane plants, etc. In addition, efficiency measures, upgrading of technology and techniques in production and harvest and post-harvest handling, storage and processing throughout value chains will be prioritised.

Support to agricultural production and processing under the Ukraine Investment Framework shall contribute to increased environmental and social sustainability, alignment with the EU policies and standards, EU Green Deal requirements, promotion of environmental and climate-sensible practices, such as farm to fork principles, landscape and biodiversity management, climate resilience and food-energy integration, enhancement of CO_2 storage in soil and carbon farming, formalisation of the sector and increasing its diversity and inclusiveness. Compliance in pesticide use, manure management, and/or animal welfare, and investments in green technologies, EU standards alignment, and reduction of greenhouse gas emissions from agriculture and land use will be prioritised.

The Ukraine Investment Framework may also stimulate digital integration and modernisation of the sector, including precision farming and use of automation, IT, and AI technologies across value chains.

Finally, the Ukraine Investment Framework may support the full agri-food value chains, including rehabilitation and expansion of storage and reloading facilities, transport and logistics infrastructure from farms to Black Sea and Danube ports and EU borders.

f. Critical raw materials

Ukraine has significant potential for critical raw materials extraction and utilization, including number of deposits and powerful engineering and technical base for implementation of complex mining and industrial projects. However, the potential for in-depth processing and new projects in the field of critical raw materials remains largely underdeveloped. Before the war, the sector generated more than 6% of Ukraine's GDP. The full-scale Russian invasion of Ukraine in 2022 worsened the situation due to the occupation of territories, military risks, shortage of human capital and funding and the difficulty of attracting modern technologies to the industry due to the ongoing war.

The sector has great potential to stimulate economic growth in Ukraine, through the use of modern technologies and integration of Ukraine into global supply chains, notably in view of Europe's growing needs related to green energy and innovative technology. Challenges to be addressed include high greenhouse gas emissions and high energy/water intensity of extractive and processing industries which make its products less competitive in markets that apply a Carbon Border Adjustment Mechanism. Another challenge is the potential high pollution impact for surrounding areas including protected biodiversity-rich areas. Therefore, further development of the critical minerals sector requires significant investment, the involvement of modern technologies, and adequate project screening to create products with high added value, reduce environmental and social impact and dependence on logistics constraints.

In line with the European Critical Raw Materials Act and with regard to the Strategic Partnership between the EU and Ukraine on raw materials and batteries, the Ukraine Investment Framework may support sustainable, responsible and environmentally friendly critical minerals value-chains in Ukraine.

The Ukraine Investment Framework may contribute to decarbonization and limiting environmental and social impact of the industry including critical raw material extraction and processing, promoting improved energy and resource efficiency, environmental improvements of existing plants, including production of green steel, uptake of innovative climate-neutral and low-carbon technologies and circular economy perspective.

The Ukraine Investment Framework may contribute to strengthening competitiveness of Ukraine, including building new sustainable high-tech export-oriented clusters, higher value added processing and refining operations and preparation of pre-cursor materials for industrial application, lithium linked manufacturing sector, including batteries, products of metallic titanium and other products based on critical minerals. This includes energy and logistics infrastructure development.

The Ukraine Investment Framework may promote investments in research, development and innovation, including digitalisation and advanced manufacturing, establishment of technology parks and innovation hubs, specialised educational programs, international partnerships and joint ventures which can bring expertise, technology, and access to global markets. The support under Ukraine Investment Framework shall aim at to enhance compliance with EU and other international standards.

g. Digital transformation

The digital sector has the potential to become a technological and economic driver of Ukraine's development. The integration of digital solutions in different sectors, aligned with EU standards, will accelerate sustainable development, promote the spread of circular economy practices and stimulate economic growth, as well as promote inclusion and accelerate equal access to digital opportunities. Moreover, digitization is a powerful tool for building a transparent state, providing quality services to its citizens.

Ukraine has already achieved significant results in its digital transformation, and the sector has shown remarkable resilience throughout the war. Before Russia's full-scale invasion it accounted for 4% of GDP and employed roughly 200,000 people. Ukraine has great potential to develop innovative technologies and continues to be a trendsetter in the field of open data and is the leading AI provider in Eastern Europe.

The numerous attacks on digital infrastructure, including its physical destruction since the outbreak of the war, accentuated the demand for formidable cybersecurity and physical resilience of the digital infrastructure and electronic communications networks. Damage to the digital sector has had implication on educational attainment, and gender equality.

The Ukraine Investment Framework may support restoration and improvement of digital infrastructure and electronic communications networks, increasing their resilience, stability and functioning, particularly in emergency situations, improve the availability of digital services to all through high-speed broadband, including universal electronic communication service in front-line and de-occupied territories. The development of cloud infrastructure and the expansion of data centre capacity are also crucial for enhancing digital capabilities.

The Ukraine Investment Framework may support digital inclusion and mitigate the impact of war-related damage, laying and restoring connection of social objects and social assistance to vulnerable populations for accessing the Internet.

It is critically important to increase the cyber resilience of the state, effectiveness of responding to cyber security incidents, as well as enhancing physical resilience of communication infrastructure via underground networks or support development of confidential Internet connection, and connection diversification.

The Ukraine Investment Framework may also support digitalisation of public services for the convenience of citizens and businesses, as well as to enhance transparency and public oversight of the state institutions and processes, investments in development of SMART cities and the Internet of Things can lead to optimising municipal services.

The Ukraine Investment Framework may help enhance Ukraine's integration in the EU Digital Single Market and increase the export of digital services by bringing the regulatory environment, physical infrastructure and digital development of Ukraine closer to the EU. The development of 5G networks in line with the EU toolbox for 5G cybersecurity and using trusted suppliers is an important prerequisite for developing a resilient connectivity infrastructure in Ukraine.

Finally, the Ukraine Investment Framework may promote support to innovation, start-ups, technology and facilities dedicated to the research, development, and experimentation in the digital field, including access to finance, international partnerships and know-how.

j. Green transition and environmental protection

The war has exacerbated existing environmental problems in Ukraine, including the destruction of critical environmental infrastructures, air pollution, water quality and soil degradation, loss of biodiversity and problems related to public health impacts and hampering the progression towards further greening of the industry. Moreover, Ukraine's carbon intensive economy with a large industrial sector dominated by energy-heavy industries such as metallurgical and cement will require the introduction of sustainable, green technologies and energy efficiency measures to mitigate its impact on environment and stay competitive. The recovery and reconstruction of Ukraine provides an opportunity to not only address the (pre)existing issues, but also to accelerate its transition toward a circular, low-pollution, nature-positive and climate-neutral economy that is consistent with the EU's environmental and climate goals and Ukraine's integration into the EU single market.

The Ukraine Investment Framework may contribute to the decarbonisation and climate resilience of Ukraine's economy across sectors, including ecological modernization and increasing energy efficiency of industrial and agriculture enterprises, energy production, transport, housing and other sectors, promoting the use of innovative green technologies and green job creation while focussing on sustainable funding proposals as per the "do no harm" approach.

The Ukraine Investment Framework may help catalysing investment supporting rehabilitation and development of the natural terrestrial and marine ecosystems, including forests and protected areas, preservation and relocation of existing forestry operations, protecting and enhancing biodiversity, enhancing the capacity of ecosystems to store CO2 from the atmosphere, improving resilience to climate change and promoting sustainable use of natural resources, such as timber.

The Ukraine Investment Framework may support emergency containment and cleanup of environmental pollution, including removal of environmental hazards from the war, contamination related to damaged industrial and energy production facilities and implementation of measures to minimise environmental risks to public health.

The Ukraine Investment Framework may enhance the sustainable and effective water management, including protection of water resources and catchment areas and rehabilitation of water infrastructure, including quality monitoring, water supply and wastewater/sewage facilities utilising innovative, sustainable, green, and resilient options. Investments in water and sanitation infrastructure will aim at restoring, modernising and expanding access to water and sanitation services, both to the population and industries, minimising service interruption, particularly in areas directly exposed to war activities, and in areas in need to adapt to hosting IDP population.

The Ukraine Investment Framework may also support investments in modern waste management infrastructure nudging Ukraine on its path to compliance with the EU Waste Directive. Priority should be given to investments that promote a circular economy, enhance sorting at the source and minimise waste incinerated or landfilled. In line with this, support can be given to advanced technologies and equipment for circular economy solutions including development of value chains for the recycling and reuse, recycling or recovery of materials such as electronics, batteries, plastic and packaging, textiles, food, metallurgical products, construction materials and demolition waste generated as a result of Russian military aggression.

k. Strategic investment & industries

Based on its analysis, the Government of Ukraine identified in the Ukraine Plan a pressing need to increase and extend support to medium-sized businesses and strategic industries, crucial for the development of the Ukrainian economy, demonstrating high potential for export, production development, and a multiplier effect on other segments of the economy. The support under Ukraine Investment Framework may be directed to provision of de-risking instruments to the identified subsectors, including green metallurgy, green steel production, processing of critical raw materials, machine building, agri-food industry, production of agricultural inputs including pesticides, fertilizers, agricultural machinery; woodworking, including production of timber and furniture, pulp and paper production; production of construction materials; production of energy equipment, including for renewable energy; production of equipment for the restoration and modernization of railway transport and other processing and manufacturing industries. .

The Ukraine Investment Framework may, with due attention to principle of additionality and prevention of market distortion, provide incentives for business support and development, promote project finance, including greenfield and brownfield projects. Focus should be on industry and services with greater added value, especially in areas with high military risks and de-occupied territories, and on business with demonstrated commitment to the standards of responsible business conduct, ready to implement investment projects. For the production to be competitive on global markets, introduction of modern technologies, high sustainability standards and the use of local (raw) materials will be essential.

Steering Board opinion

The Steering Board is invited to adopt the above Strategic Orientations.