



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 26-May-2023 | Report No: PIDA36233



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Ukraine	P181023	Ukraine Rapid Economic Lifeline for Inclusion, Efficiency and Fairness (RELIEF) DPO (P181023)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EUROPE AND CENTRAL ASIA	29-Jun-2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministry of Finance	Ministry of Finance		

**Proposed Development Objective(s)**

The development objectives are to (i) bolster social protection to provide relief during the wartime; (ii) enhance accountable and transparent use of public resources; and (iii) strengthen markets for economic recovery.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	1,500.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	1,500.00
World Bank Lending	1,500.00

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

Country Context

Russia’s invasion of Ukraine triggered one of the largest refugee crises since World War II and continues to impose a



**severe humanitarian and economic toll.** As a result of the invasion, Ukraine's economy contracted by 29.1 percent in 2022 and under baseline projections, which assume that active hostilities will continue until mid-2024, GDP is expected to rebound slightly in 2023, with GDP projected to grow by 2.0 percent, with a more notable recovery starting at the end of 2024. Between February 24, 2022, and April 9, 2023, 22,734 civilians fell casualty (killed and injured) to the invasion, according to the Office of the High Commissioner for Human Rights (OHCHR). Russia's invasion of Ukraine has also triggered the largest human displacement crisis in the world at present: approximately 5.4 million people (or one-eighth of the population) have been displaced within Ukraine, and over 8.1 million people (or just under one-fifth of the population) have fled to neighboring countries (International Organization for Migration (IOM) and UNHCR). Fifty-eight percent of those internally displaced persons (IDPs) have been displaced for six months or more, according to the January 2023 IOM report. Poverty in Ukraine is estimated to have increased from 5.5 percent in 2021 to 24.2 percent in 2022, pushing 7.1 million additional people into poverty and erasing 15 years of progress. Poverty rates in the occupied territories and among those most affected by Russia's invasion are expected to have increased even more. The recent Rapid Damage and Needs Assessment (RDNA2) estimates that Ukraine sustained infrastructure damages were over US\$135 billion during the first year after the invasion and that needs for recovery and reconstruction amount to US\$411 billion.

**The authorities, with assistance from international partners, have stabilized the economy.** At the start of the invasion the authorities quickly adapted fiscal, monetary, external, and financial sector policies to preserve financial and exchange rate stability. Emergency measures included administrative foreign exchange and capital controls, a suspension of regulatory and supervisory enforcement actions, postponement of audits of banks' financial statements, and forbearance with respect to restructured loans. The authorities also pegged the exchange rate to the US dollar on the first day of Russia's invasion of Ukraine, thus providing a nominal anchor to the economy. Some of these emergency measures have been lifted since then, including an easing of external financial flows, which has contributed to a 25 percent depreciation of the exchange rate vis-à-vis the US dollar in July 2022. Fiscal policy has been swiftly adjusted to reduce non-essential expenditures, to preserve and adapt spending on critical social needs and to increase defense expenditures. Salaries for government employees have been paid consistently, which helped ensure the continuity of government functioning, including of schools and hospitals.

**Ukraine received external financial assistance of about US\$32.1 billion in 2022 and a total support package from international partners amounting to US\$115 billion for the next four years.** This assistance not only allows it to finance essential public spending, but also provides sufficient external reserves to maintain an exchange rate peg, pay for critical imports and keep inflation under control. The IMF approved a four-year US\$15.6 billion Extended Fund Facility program on March 31, 2023, which will help to further stabilize the economy. The authorities have also engaged closely with their international creditors and have agreed on a debt service standstill until December 2026 for official and bilateral debt, and until August 2024 for external commercial debt. To ensure debt sustainability on a forward-looking basis the authorities have also announced their intention to seek a debt restructuring. The DSA highlights that this, in conjunction with the receipt of sufficient concessional loans and grants consistent with international financing assurances, can restore debt sustainability. Thus, despite a prolonged war and high levels of vulnerabilities, the macroeconomic policy framework is assessed to be adequate, conditional on the mobilization of substantial additional external financing.

#### Relationship to CPF

**The proposed DPO is a part of the World Bank Group's (WBG) effort to support of the people of Ukraine during this period of exceptional hardship.** This is coordinated through the Multi-Donor Resources for Institutions and Infrastructure (MRII) for Ukraine initiative that establishes a coordinated approach between IBRD/IDA, IFC and MIGA. As of March 2023,



the WBG has mobilized over US\$20.6 billion in emergency financing through these channels. Since Russia's invasion, the WBG's approach to Ukraine has focused on two phases. Phase 1 entails relief activities to support the budget, sustain public administration and ensure the provision of services. Phase 1 also prioritizes repairs to the existing infrastructure and urgent recovery needs, and on capacity building for government agencies. The second phase entails a focus on reconstruction of damaged infrastructure and the concurrent execution of structural reforms. This operation is aligned with this approach, providing budget support, and supporting immediate wartime relief measures, and enabling – through reforms - a public and private sector contribution to the short-term reconstruction of essential infrastructure.

**The proposed operation is aligned with the second pillar of the WBG Strategy for Fragility, Conflict, and Violence 2020–2025.** The strategy highlights the need to remain engaged during conflict and crisis situations to preserve hard-won development gains, protect essential institutions, build resilience, and ensure readiness for a future recovery. The proposed operation complements on-going investment projects in Ukraine, including the PEACE project and framework projects in health, energy, and transport, by supporting reforms that can catalyze future operations.

### C. Proposed Development Objective(s)

The development objectives are to (i) bolster social protection to provide relief during the wartime; (ii) enhance accountable and transparent use of public resources; and (iii) strengthen markets for economic recovery.

#### Key Results

**The proposed operation supports measures to bolster social protection during the wartime, enhance accountable and transparent use of public resources, and strengthen markets.** Results to bolster social protection include facilitated access to social protection mechanisms and increases in contributory social support payments to the most vulnerable. Actions supported under the second pillar aim to establish a register of damaged and destroyed houses for the transparent allocation of compensation payments, strengthen procurement through a reinstatement of electronic procurement, and enhance financial sector reporting to curb tax evasion. Measures to strengthen markets aim to improve monitoring and mitigate corruption risks in land markets, support cost recovery in the energy sector, enable more efficient access to finance for small and medium-sized enterprises, and mitigate financial sector risks.

### D. Project Description

**The proposed operation supports the authorities' efforts to provide social relief and support an economic recovery in the context of the unprecedented challenges arising from Russia's invasion of Ukraine.** This support package comprises contributions from the European Union (EU) through a Macro-financial assistance (MFA+) instrument, the United States (US) through budget support grants, and the International Monetary Fund (IMF) through an Extended Fund Facility (EFF) program. The operation aims to achieve the dual objective of providing relief to households during the wartime, and supporting actions that adapt both the private and the public sector to wartime conditions and help prepare them for an eventual recovery.

**The proposed operation is structured around three pillars:**

- **Pillar 1 aims to bolster social protection to provide relief during the wartime.** Supported policy measures include (i) strengthening of access criteria for the Housing Utility Subsidy (HUS) to prevent the exclusion of IDPs, and (ii) an increase of minimum guaranteed pensions to provide support to the poorest households, coupled with policy



actions that consolidate pension administration.

- ***Pillar 2 supports efforts to enhance accountable and transparent use of public resources.*** Supported actions include the establishment of a damaged or destroyed property register. This action builds on analytical work under the RDNA2 and will enable immediate compensation payments while at the same time establishing an institutional platform for post-war reconstruction of the housing stock. Building on a World Bank wartime procurement assessment, this pillar also supports efforts to strengthen the public procurement system and adapting it to the wartime context by mandating the use of an improved and broadened e-procurement system that provides for sufficient competition, safeguards, and transparency while at the same time allowing for time-efficient procurement. Finally, efforts under the third pillar support the introduction of the OECD's common reporting standards to curb tax evasion and avoidance to ensure an equitable and sustainable revenue base during and after the wartime.
- ***Pillar 3 focuses on strengthening markets for economic recovery.*** This pillar focuses on three markets. First, it supports policy actions that strengthen public monitoring of land market transactions and mandate anti-corruption measures as Ukraine prepares for the second stage of land market opening for Ukrainian legal entities (up to a maximum of 10,000 ha) in 2024. Second, this pillar supports measures to strengthen competition and transparency in wholesale energy markets, complemented with a transmission tariff increase to enhance cost recovery. Third, reforms supported under this pillar aim to manage immediate financial sector risks, which have arisen because of the invasion, through a resilience assessment of the 20 largest banks. Financial sector actions also support the reforms of an interest rate subsidy program that is providing a critical lifeline for small and medium sized enterprises, and will enable their continued operation through the war- and post-war periods.

## E. Implementation

### Institutional and Implementation Arrangements

**The Ministry of Finance is responsible for the overall coordination of the proposed operation.** While the Ministry of Finance is the primary coordinating counterpart, some of the line ministries are responsible for implementation in their respective areas. The Ministry of Social Policy is responsible for reforms to the HUS and pension programs. The Ministry of Communities, Territories, and Infrastructure Development is responsible for implementing the register of destroyed and damaged assets. The Ministry of Agrarian Policy and Food has responsibility for implementing the land reform. The Ministry of Energy is implementing work on the REMIT law and coordinates with the NEURC on tariff reforms. Banking sector reforms are coordinated by NBU. The specific expected results indicators are available and will be used to monitor implementation of the operation. The Bank, in collaboration with the Ukrainian authorities, will monitor and evaluate the program's achievement of these results, including through ongoing technical assistance for the implementation of land reforms, banking and finance (including land financing), logistics and pensions reform.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**The DPO prior actions are expected to help contain, and possibly reverse, recent poverty increases caused by Russia's invasion by strengthening social protection, the economy, and the fiscal position.** Positive poverty and social impacts are expected to arise from measures supported under the first pillar, including through actions easier access to the



Household Utility Subsidy Program, indexing pension payments, and facilitating damaged asset compensation. Under the second pillar, enhancing information provision, transparency, and fairness of land markets is expected to have an overall positive distributional effect in the medium term, but there may be risks in the implementation and potential social impacts that will need to be managed. Optimized public support to help small and medium-sized enterprises and set up a registry to identify destroyed houses are also expected to have positive poverty and distributional impacts.

#### Environmental, Forests, and Other Natural Resource Aspects

**Most of the proposed prior actions are not likely to cause any adverse effects on the environment, forest, and other natural resources.** Possible positive downstream environmental effects are expected because of prior action 6, which promotes lower transmission tariff for green/electro metallurgy industries that would encourage them to move towards greener and cleaner energy. Also, prior action 9 may imply positive environmental effects as international competitive bidding standards used will likely apply more stringent environmental requirements in procurements and contracts. Some potential negative environmental impacts could be also associated with the 5-7-9 program to be optimized under prior action.

#### G. Risks and Mitigation

**Owing to the unique circumstances, the overall risk of this operation is exceptionally high.** The key risks to this operation are political and governance risks, macroeconomic risks, and other risks related to the security situation. Implementation and stakeholder risks are also high. The achievement of the development objective of this operation depends, first and foremost, on the evolution of active fighting and other factors related to Russia's invasion that are outside of the authorities' control. This results in high residual risks that cannot be mitigated. Political and governance risks arise from the deep-rooted influence of powerful vested interests that could derail, or even reverse reforms supported by this operation. Macroeconomic risks emanate, among others, from Ukraine's dependence on external assistance. Should such assistance be insufficient to meet expenditure needs, the authorities may resort to renewed monetization or to the consolidation of social expenditure. Inflation poses a particular risk, as many supported prior actions will benefit from the maintenance of reliable price signals. The authorities' prudent macroeconomic management, the close collaboration with international partners, especially the World Bank and the IMF, and received financing assurances from international community mitigate this risk to some extent. Other risks emanate from the fragile security situation, the possibility of spreading hostilities, and the risk of continued attacks on critical infrastructure. Stakeholder risks are also high as this operation contains reforms that may attract opposition from vested interest in, for instance, land markets, that could risk the development objective.

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**APPROVAL**

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**Approved By**

Country Director:	Gevorg Sargsyan	08-May-2023
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