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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED RESTRUCTURING AND GRANT

IN THE AMOUNT OF
US\$4.5 BILLION

TO

UKRAINE

FOR THE

SECOND ADDITIONAL FINANCING
FOR

PUBLIC EXPENDITURES FOR ADMINISTRATIVE CAPACITY ENDURANCE (PEACE) IN
UKRAINE

August 1, 2022

Governance Global Practice
Europe And Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective June 30, 2022)

Currency Unit = Ukraine Hryvnia (UAH)

US\$1 = UAH 29.52

SDR 1 = US\$1.34

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AM	Accountability Mechanism
DCM	Department of Coordination and Monitoring
DSE	Department of Social Expenditures
ESCP	Environmental and Social Commitment Plan
GDP	Gross Domestic Product
GMI	Guaranteed Minimum Income
GoU	Government of Ukraine
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HUS	Housing and Utilities Subsidy
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDP	Internally Displaced Persons
IP	Implementation Progress
MDTF	Multi-Donor Trust Fund
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MoH	Ministry of Health
MoSP	Ministry of Social Policy
NBU	National Bank of Ukraine
NHSU	National Health Service of Ukraine
PDO	Project Development Objective
PEACE	Public Expenditures for Administrative Capacity Endurance
PFU	Pension Fund of Ukraine
PFM	Public Financial Management
PMG	Program of Medical Guarantees
POM	Project Operational Manual
SEP	Stakeholder Engagement Plan
SES	State Emergency Service
SSN	Social Safety Net
STS	State Treasury System
ToC	Theory of Change
WBG	World Bank Group

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BASIC INFORMATION – PARENT (Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine - P178946)

Country	Product Line	Team Leader(s)		
Ukraine	IBRD/IDA	Oleksii Balabushko		
Project ID	Financing Instrument	Resp CC	Req CC	Practice Area (Lead)
P178946	Investment Project Financing	EECG1 (9750)	ECCEE (1607)	Governance

Implementing Agency: Ministry of Finance

Is this a regionally tagged project?	
No	

Bank/IFC Collaboration	
No	

Approval Date	Closing Date	Expected Guarantee Expiration Date	Environmental and Social Risk Classification
07-Jun-2022	31-Mar-2023		Moderate

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach [MPA]	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input checked="" type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input checked="" type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)

Development Objective(s)

To contribute to sustaining the government administrative and service delivery capacity to exercise core government functions at the national and regional levels

Ratings (from Parent ISR)

	Implementation	Latest ISR
	13-Jun-2022	06-Jul-2022
Progress towards achievement of PDO	S	S
Overall Implementation Progress (IP)	S	S
Overall ESS Performance	S	S
Overall Risk	H	H
Financial Management	S	S
Project Management	S	S
Procurement	S	S
Monitoring and Evaluation	S	S

BASIC INFORMATION – ADDITIONAL FINANCING (Second Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine - P179456)




Project ID P179456	Project Name Second Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine	Additional Financing Type Restructuring, Scale Up	Urgent Need or Capacity Constraints Yes
Financing instrument Investment Project Financing	Product line Recipient Executed Activities	Approval Date 04-Aug-2022	

Projected Date of Full Disbursement 15-Dec-2022	Bank/IFC Collaboration No		
Is this a regionally tagged project? No			

Financing & Implementation Modalities

<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input checked="" type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input checked="" type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input checked="" type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)
<input type="checkbox"/> Contingent Emergency Response Component (CERC)	

Disbursement Summary (from Parent ISR)

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
IBRD	492.00	481.36	10.47	 98 %
IDA	1,000.00	113.54	857.66	 12 %
Grants	1,300.00	1,300.00		 100 %

PROJECT FINANCING DATA – ADDITIONAL FINANCING (Second Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine - P179456)

FINANCING DATA (US\$, Millions)

SUMMARY (Total Financing)

	Current Financing	Proposed Additional Financing	Total Proposed Financing

Total Project Cost	3,342.00	5,600.00	8,942.00
Total Financing	2,792.00	4,500.00	7,292.00
Financing Gap	550.00	1,100.00	1,650.00

DETAILS - Additional Financing

Non-World Bank Group Financing

Trust Funds		4,500.00
Trust Funds		4,500.00

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any other Policy waiver(s)?

Yes No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

INSTITUTIONAL DATA

Practice Area (Lead)

Governance

Contributing Practice Areas

Macroeconomics, Trade and Investment

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
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Extended Team			
Name	Title	Organization	Location
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I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

A. Introduction

1. **This Project Paper seeks the approval of the Regional Vice President to provide additional financing in the amount of US\$4.5 billion for a Second Additional Financing (AF) to Ukraine for the Public Expenditures for Administrative Capacity Endurance (PEACE) Project and undertake a Level 2 restructuring for the Project to update project costs, disbursement arrangements, results framework, and Environmental and Social arrangements.** The Second AF will be financed by an expected US additional contribution to the PEACE Multi-Donor Trust Fund (MDTF2) of US\$4.5 billion.

2. **The original project is a US\$1.492 billion Investment Project Financing (IPF), financed by a EUR 946.6 million (US\$1 billion equivalent) non-concessional IDA credit and EUR 465.96 million (US\$492 million equivalent) IBRD loan, guaranteed by the Netherlands, Latvia, Lithuania, and the United Kingdom.** The project was approved by the Executive Directors on June 7, 2022, with a closing date of March 31, 2023. The Project became effective on June 18, 2022. The Project Development Objective (PDO) is to contribute to sustaining the government administrative and service delivery capacity to exercise core government functions at the national and regional levels. The Project reimbursed government expenditures on salaries of government and school employees. A Project Operational Manual (POM) was developed, which defines responsibilities, eligibility and procedures related to implementation of the project in line with all applicable World Bank policies. Progress towards achievement of the PDO and Implementation Progress (IP) are both rated Satisfactory in the second Implementation Status Report of the Parent project (July 6, 2022). All other ratings are satisfactory. As of July 8, US\$450 million equivalent has been disbursed from the loan, and US\$22 million equivalent from the credit. The first AF was approved on June 26, 2022, for US\$1.3 billion of grant funding and is fully disbursed.¹

3. **The proposed Second AF will introduce additional types of expenditures incurred by the government to pay pensions, social assistance, wages of first responders and deliver healthcare services, and update the economic, financial, technical analyses and results framework to fully reflect the impact of the new activities.** As a result of the Second AF, a Level 2 restructuring is proposed to update project costs, disbursement arrangements, results framework, and Environmental and Social arrangements.

B. Rationale

4. **Russia's invasion of Ukraine on February 24, 2022 has had devastating economic consequences.** According to official statistics Ukraine's gross domestic product (GDP) shrank by 19.3 percent (quarter-on-quarter seasonally adjusted) in Q1 2022, with a steeper decline expected in Q2. Assuming the war continues, a 45 percent GDP contraction is projected in 2022. Inflation increased to 21.5 percent (year on year) in June due to supply disruptions and increased production costs caused by extensive damage to production facilities, interruptions to logistics networks, and displacement of employees. Consumer prices are expected to increase further due to the supply side shocks and increased depreciation expectations of Ukraine's currency. With the war continuing, Ukraine is facing a number of macro-critical challenges: (i) high fiscal financing needs and inability to mobilize domestic revenues; (ii) increasing reliance on monetary financing; (iii) deteriorating asset quality of the financial sector; and (iv) a weak external position.

5. **Ukraine's public finances remain under severe pressure, with disbursement of external donor financing only**

¹ Disbursement was partly as an advance, for which expenditures have not yet been submitted for verification and review.

partially covering the fiscal gap. Monthly tax revenues have dropped by nearly half relative to pre-war levels, even as spending needs have sharply risen. For the year 2022, General government's revenues are expected to drop by 45 percent due to both: a sharp deceleration in economic activity and tax policy changes (when the war began, the government introduced tax holidays for some taxes, including import duties). From July 1, 2022, import duties were re-established at the pre-war level, which are expected to support fiscal revenues going forward. At the same time, given the prolonged war, fiscal revenues are expected to remain depressed for a considerable period even after the war ends. Non-military financing needs amounted to US\$11 billion equivalent in Q2 and are estimated at US\$18.8 billion in the second half of the year. External debt service will spike in September with IMF repurchases and Eurobond payments due. Government is trying to reduce financing needs. On July 20, Ukraine has asked its international creditors (official bilateral and Eurobond holders) to freeze debt repayments for two years. Majority of official bilateral creditors have agreed to suspend collecting debt payments. Due to delays in international financing during April-June, Ukraine had to rely on domestic sources to meet its urgent fiscal needs. The National Bank of Ukraine (NBU) has already monetized over US\$7.7 billion in fiscal needs since the beginning of the war. If monetization of fiscal needs continues, inflationary pressures will continue to build and will become increasingly difficult to bring under control going forward.

6. **The war resulted in immediate balance of payments pressures through several channels.** First, due to the blockade at Black Sea ports, Ukraine almost fully lost its ability to export grain and other agricultural commodities; since the beginning of the war export of goods collapsed, declining almost by half (in both MoM and YoY terms). This may lead to significant broadening of the current account deficit in the second half of 2022, as imports have already started to recover in May-June. Second, huge outflows of refugees have created capital account pressures due to withdrawal of FX funds from their Ukrainian accounts to finance their spending abroad. In the absence of balance of payments support, these pressures will continue to build. In response to growing pressures on FX, on July 21, the National Bank of Ukraine changed the official, fixed exchange rate to UAH36.6/US\$1, a 25% increase from the UAH29.25/US\$1 maintained from the beginning of the war. The NBU had been actively intervening to defend the exchange rate, using approximately US\$12bn since the beginning of the war. In recent months, this has led to an accelerating reduction in international reserves, to US\$22.8b in June, down from US\$29b prior to the war. Together with the increase in the policy interest rate to 25%, the NBU expects this measure to reduce demand for foreign exchange

7. **The Ukrainian banking system entered the war in a relatively good condition.** The war is expected to affect banks' asset quality and solvency. The electronic payment system infrastructure has remained fully operational since the start of the war and about 85 percent of bank branches remain operational as of mid-June. Liquidity remains at sufficient levels, given a relatively stable deposit base and refinancing support from the NBU. Recent amendments introduced a blanket guarantee for retail deposits and brought Oschadbank – a state-owned bank - under the deposit guarantee system. At the same time, loss of assets, collateral, and revenues will severely affect banks' profitability and solvency. During March-May, the banking sector already accounted for US\$1.1 billion (UAH 33 billion) of loan loss provisions for expected war-related credit losses. While some banks will be able to recover capital themselves through their future profits, others will likely need to be recapitalized by their shareholders.



Table 1. Estimated Wage Bill of Government and School Employees, US\$ million

	2022										2023		
	March	April	May	June	July	August	September	October	November	December	January	February	March
Government employees	140	140	140	140	120	120	120	120	120	120	120	120	120
School employees	197	198	198	210	200	200	180	180	180	180	180	180	180
Total needs	337	338	338	350	320	320	300	300	300	300	300	300	300
Covered by first PEACE AF	341			350	350	259	-	-	-	-	-	-	-
Covered by PEACE project	472			0	0	81	150	250	250	250	39	-	-
Covered by project and parallel financing (Italy)	-			-	-	-	200	-	-	-	-	-	-

Note: The financing needs were partially covered in May with the general budget supported by the Supplemental DPO funds and are expected to be partially covered with parallel financing from Italy in June and July. Budget figures from July onwards reflect new exchange rate of UAF 36.3 per USD.



8. **In response to the Government of Ukraine (GoU) request of July 7, 2022, the proposed Second AF provides further support to core government functions at the national and regional levels.** The original project and the first AF provided funding for the wage bill of non-security sector government employees and school employees who are integral for ensuring continuity of core government services (mainly public administration and education services) and preventing erosion of learning outcomes. The financing needs for the wage bill of government and school employees for the duration of the parent project are vast and remain considerably larger than the amount of financing available (see Table 1). This Second AF will expand this support to cover pensions, social payments, and emergency and healthcare services that are essential to mitigate the social and economic impact of the war, thus scaling up the parent project and first AF's support to the PDO.

9. **The parent project and the first AF provided funding to the wage bill of non-security government employees of the central and regional governments and school employees.** Through the parent project and the first AF, the following types of expenditures were financed: the salaries of 162,138 central and regional government employees and 512,235 school employees at the local level in the portion funded through education subvention from the central government budget. These types of expenses have now been grouped under Component 1.

10. **This Second AF provides emergency support to Ukraine during the war - as part of the World Bank Group (WBG) Response to the Global Impacts of the War in Ukraine – A Proposed Roadmap - and supports the priority themes under the WBG Strategy for Fragility, Conflict, and Violence 2020-2025 (Report No. 146551).** The Second AF, consistent with the parent project, is a core element of the initial fast-track response under the strategic framework for the WBG on Global Impacts of the War in Ukraine. It will expand the scale of the project through the addition of other eligible wage expenditures, social assistance, and pensions. It supports both short-medium and long-term considerations outlined in the Proposed Roadmap and presented on April 12, 2022, the first dimension of which is increased support to Ukraine, including through financing sizeable non-military expenditure needs.

C. Additional Activities and Types of Expenditures

Social Assistance Payments

11. **Ukraine operates a complex social safety net (SSN) system.** Before the Russian invasion, SSN spending on social assistance amounted to around 3 percent of GDP; well above the average for the Eastern Europe and Central Asia region of 1.7 percent. Family and child benefits absorb the largest share of the total social assistance budget (43 percent), followed by the Housing and Utilities Subsidy (HUS) program (22 percent). Spending on the Guaranteed Minimum Income (GMI) program - with the best results in terms of targeting low-income individuals - amounts to around 10 percent of the total SSN expenditure. During 2016-2021 expenditures on the means-tested programs have grown and reached around 60 percent of the total social assistance spending. The rest of the spending is for categorical benefits.

12. **Ukraine's social assistance system covers about 60 percent of the population, and coverage of the poorest quintile increased from 60 percent in 2016 to about 80 percent of the population in 2020.** Overall, it is estimated that approximately 42 percent of total transfers of family and child assistance programs reach the poorest 20 percent; and almost 64 percent of all transfers in this category go to the poorest 40 percent. The GMI program stands out among the other social assistance programs in terms of targeting accuracy with around 74 percent of the total funds going to the poorest 20 percent and over 90 percent to the poorest 40 percent of beneficiaries. Compared to the GMI, the largest - in terms of expenditure and number of beneficiaries – is the HUS program. The HUS program delivered around



72 percent of the total funds to the poorest 40 percent in 2020. The World Bank's long-term engagement in this area includes the Social Safety Nets Modernization Project (P128344) approved in 2014 and its various AF/restructurings; the most recent one was approved on June 1, 2022, in response to the war.

13. **Although the Government operates under extreme fiscal pressure, three months of the war have shown that the fully functional and adaptive Ukrainian SSN system managed to provide benefits to those who needed them the most due to displacement and loss of livelihood.** This provides compelling evidence that the SSN enrollment and delivery systems are sufficiently reliable and robust to channel the proceeds of the proposed Second AF to the state budget to co-finance the SSN benefits.

14. **A system for control of errors, fraud, and corruption in SSN programs is in place.** From 2014 to 2022, the World Bank channeled almost US\$600 million of its Social Safety Nets Modernization Project (P128344) - proceeds to the state budget to co-finance GMI benefits. The project's financial management system assessment was conducted for the whole SSN system and all benefits. The SSN Modernization Project also supported the GoU in establishing a modern system of fraud and error control in the SSN. A Social Inspectorate with the capacity to effectively identify and correct benefit irregularities related to errors and fraud has been established. Three inspections of the Guaranteed Minimum Income program that were based on (i) random sample, (ii) data matching, and (iii) client risk profiling techniques revealed a low detection rate (cases that had led to a recalculation of amount or termination of benefit).

15. **The following three social assistance programs are proposed for financing by the second AF for the PEACE project:**

- a. **Guaranteed Minimum Income Program.** The GMI² is Ukraine's last-resort anti-poverty program that provides monthly benefits to low-income families. Benefits are calculated as the difference between the Subsistence Minimum for a family and the beneficiary's monthly family income. The number of program beneficiaries has gradually increased - from 245,000 in 2015 to 341,000 in 2020 under the SSN Modernization project. The data on the demographic composition of the beneficiary families suggest that most direct program beneficiaries are children (62 percent), most of the adult recipients are women (73 percent), and only 38 percent of all beneficiaries are 'able to work.' The estimated average size of benefit per beneficiary family per month for 2022 is UAH 6,012 (US\$206). The annual budget allocated by the Government for the program for 2022 is UAH 14.8 billion (US\$493 million). The monthly budget allocated by the Government for the program for 2022 is UAH 1.2 billion (US\$41 million).
- b. **Housing and Utilities Subsidy program.** The HUS is the largest means-tested program, which provides financial support for the payment of utility bills. The significant increase in the HUS expenditures during 2015–2017 (from 0.1 percent of GDP in 2014 to 2.1 percent of GDP in 2017) was essential for supporting a major reform to eliminate universal energy subsidies, and it buffered the impact of unprecedented utility tariff increases. During this period, the HUS became the country's largest social assistance program, reaching close to half of Ukraine's households in 2017 (6.5 million). Since 2018, in subsequent rounds of reform, the design of the HUS was improved through enhanced targeting, accountability and transparency. As a result, the number of beneficiary households dropped from around 6.5 million in 2017 to 3 million in 2020. The estimated average

² Law of Ukraine "On State Social Assistance to Low-Income Families" dated June 1, 2000, <https://zakon.rada.gov.ua/laws/show/1768-14#Text>



size of benefit per household per month for 2022 is UAH 1,103 (US\$37). The annual budget of the program allocated for 2022 is UAH 24.4 billion (US\$815 million). The monthly budget allocated for the program for 2022 is UAH 2 billion (US\$68 million). As a result of the deteriorating economic situation, the number of eligible beneficiaries may go up during the heating season.

- c. **Social assistance for persons with disabilities.** Another program focused on the most vulnerable is social assistance for persons with disabilities since childhood and for children under 18 years old with disability, which includes top-ups for care, and is provided based on the disability status. Specifically, the medical expert commission based on the medical history and results of physical examination and testing defines the group (for adults) or category (for children) of disability and duration of disability status. The commission also assesses the care needs. Based on the disability status, disability group/category and conclusion on care needs, the social welfare bodies make decisions about the provision of benefits and top-ups for care. This type of social assistance allows in-person application in the local social welfare units - by a potential beneficiary or his/her legal representative. Alternatively, applications can be submitted by post or through the website of the Ministry of Social Policy (MoSP) and management information systems integrated with it. The annual budget of the program allocated for 2022 is UAH 16.8 billion (US\$560 million). The monthly budget allocated for the program for 2022 is UAH 1.4 billion (US\$47 million).

Social Assistance to the Internally Displaced Persons

16. **The Russian war on Ukraine has resulted in an enormous number of internally displaced citizens.** This comes on top of 1.4 million Ukrainians who were already internally displaced by almost eight years of active fighting in eastern Ukraine (between 2014 and February 2022). With Russia's full-scale invasion on February 24, 2022, significantly more people were displaced. Estimates provided by the International Organization for Migration suggest that, as of May 23, 7.1 million Ukrainians – accounting for around 20 percent of Ukraine's pre-war population - were internally displaced. According to UNICEF, 4.8 million children were displaced just 6 weeks into the war – this is nearly two-thirds of Ukraine's estimated 7.5 million children (2.8 million children were internally displaced, while 2 million have fled Ukraine as refugees).

17. **On March 20 the GoU introduced social assistance for the Internally Displaced Persons (IDPs) to cover living expenses of:**

- a. Those registered as IDPs during March-April who were forced to leave their places of residence in the war-affected or occupied territories, and beneficiaries of the targeted social assistance to IDPs program introduced in 2014 who were registered in war-affected areas.
- b. IDPs who are forced to leave their residence in the war-affected, occupied, or blocked communities defined by the Government or IDPs whose homes are destroyed.

18. **Support to IDPs because of the war has grown significantly. In June 2022, the IDP program of the government provided support to over 1.3 million people.** Under the social assistance to cover living expenses program, an amount of UAH 3,000 (around US\$100 equivalent) per month is paid to every child or person with disability, and an amount of UAH 2,000 (around US\$67 equivalent) per month to every other person. The program allows in-person enrollment through the social welfare units and local governments and online enrollment through the Diia application (with 17 million users). The administrative data of the MoSP suggest that the total estimated spending for March-May is 12 billion (US\$347 million equivalent).



19. **Payments for the social assistance for IDPs are made through banks.** The main administrator of the budgetary funds allocated for the social assistance to IDPs is the MoSP, which submits to the State Treasury of Ukraine a transfer request and payment order for the total amount of funds to be transferred to the Oshchadbank. The MoSP transfers the total amount of benefits to the Oshchadbank - by the 3rd, 13th, and 23rd day of each month - using the program beneficiaries' data from the Unified Registry of IDPs operated by the Data Processing Center of the MoSP. The Oshchadbank then transfers payments to the individual accounts of the beneficiaries - no later than within the next working day. The payments are deposited into the individual bank accounts indicated by the beneficiaries at the enrollment.

Pension Payments in Ukraine during the War

20. **Public expenditures on pensions in Ukraine have been hovering around 10 percent of GDP in the past few years.** There are over 10.8 million pensioners in Ukraine. While the main financing source has been a single social contribution, the central budget covered close to 40 percent of the total pension expenditures. The system is diverse and complex, providing benefits based on old age, disability, and survivorship, complemented by various categorical benefits as well as poverty, age and merit related supplements. The total monthly pension bill in May 2022 constituted close to US\$1.6 billion. The budget financed close to US\$400 million per month of pension expenditures before the war, with expected financing close to US\$600 million going forward due to a drop in social security contributions revenues. Those include subsistence minimum top-ups, long-service related supplements, age-related income guarantees and supplements, pensions and compensations related to the Chernobyl nuclear catastrophe, and costs of social insurance for workers in certain occupations (mining, agriculture, and others).

21. **Most pension payments are channeled through commercial banks.** Seventy-eight percent of all pension payments are channeled through the system of commercial banks, with 100 percent of such payments directed to beneficiary accounts. The remaining 22 percent of all benefit payments are managed by the government postal service Ukrposhta, often as a home delivery service to the incapacitated beneficiaries. Given the security situation in several regions, the Government introduced an arrangement whereby for pensioners who receive pensions using Ukrposhta services and who remained in the territories that are occupied, surrounded, or endangered by active military hostilities (where Ukrposhta has no technical ability to deliver pensions), the entire amount of pension will be deposited to accounts opened in a designated bank by the Pension Fund of Ukraine (PFU) on behalf of pensioners. Pensioners can claim pensions in branches of the bank within government-controlled territory by presenting a passport and a certificate with a tax number. If a pensioner does not claim funds in the bank during six months, the entire amount of the pension is returned to the PFU and is accounted as pension due to be paid. A pensioner can request the PFU to resume paying pension through either Ukrposhta or a commercial bank at any point of time following regular procedures.

Healthcare Services - Program of Medical Guarantees

22. **The recent health financing reform initiated in 2017, supported by the World Bank, has established a foundation for more sustainable financing and delivery of health care services.** The health benefits package (guaranteed healthcare services) is defined through the Program of Medical Guarantees (PMG) and implemented by contracting health service providers to deliver specific health services by the National Health Service of Ukraine (NHSU).



By 2020, PMG included all types of health care, and for its implementation, NHSU contracted over 3,000 providers for the delivery of primary, secondary, and emergency health services. The provision of health services was flexibly adapted during the COVID-19 crisis to cover diagnostics and treatment of COVID-19 cases. The NHSU contracted over 3,400 providers (including 2,212 primary care providers and 1,700 hospitals) to deliver care within 39 defined packages at the beginning of 2022 but canceled several packages in May 2022 to free some space to redirect financing to new needs (care for internally displaced people and those with increased trauma and injuries).

23. **Despite numerous attacks on health facilities, health services continue during the war.** The Government has supported several measures to simplify procedures and incentivize the delivery of health services. Payments to health providers have been simplified and are based on estimates – providers receive an estimated monthly allocation that replaces the output-based financing implemented before the war. Salaries of health workers were increased in January 2022 to ensure a minimum of UAH 13,500 (US\$420) for mid-level health staff and UAH 20,000 (US\$625) for doctors.³ Administrative procedures and reporting have been simplified: paper-based reports are allowed; facility license renewals are not required; import procedures have been simplified, and select medicines, medical devices, and supplies are exempt from import duties; centralized procurement was expanded to include additional medicines to address shortages. The employment of displaced health workers has been incentivized.⁴ The employment of internally displaced health workers in their new locations is incentivized by payments to the employer from the Ministry of Economy of an additional UAH 6,500 (US\$215) per month for two months.⁵ The World Bank has supported the procurement of additional medical equipment and supplies to strengthen hospitals in providing emergency and acute care for a total of US\$35 million, and additional procurements are being planned within the ongoing Serving People, Improving Health (P144893) and Ukraine Emergency COVID-19 Response Vaccination (P175895) projects.

First Responders' Wages

24. **The first responders have become an especially vital part of the government core functions, performing emergency rescue operations, fighting fires, and evacuating civilians after shelling.** The first responders in Ukraine operate under an umbrella of the State Emergency Service (SES), a central government agency coordinating its work with and reporting to the Minister of Internal Affairs. There were no changes to the reporting/control arrangements of SES during the ongoing war. The Ministry of Defense and General Staff of the Armed Forces of Ukraine have no role in commanding or directing SES. The main task of SES is the implementation of state policy on civil protection and protection of the public and territories during emergencies. It performs a very wide range of activities. They include firefighting, response to man-made and industrial accidents and natural disasters, search and rescue activities, evacuation of the public from areas affected by accidents, disasters, and emergency situations, and humanitarian demining. During the war, their activities are still focused on the protection and rescue of the civilian population. The SES has (i) regional and territorial units and (ii) specialized interregional units that report directly to the SES Headquarters. One of the examples of such a specialized unit is the Special Aviation Unit. It performs medical evacuation, extinguishing of forest fires, transportation, and provision of humanitarian aid. As SES staff are government employees, their salaries are paid from the Treasury Single Account through commercial bank per payment request of the SES.

³ <https://zakon.rada.gov.ua/laws/show/1440-2021-%D0%BF#Text>

⁴ MOH data confirms the displacement of 1,658 health workers, including 1,023 doctors, 429 other specialists (nurses, midwives, pharmacists), and 206 technical workers (as of April 11, 2022), but this is likely an undercount.

⁵ Cabinet of Ministers Resolution #331 of March 20, 2022. This is applicable to all sectors, including health.



II. DESCRIPTION OF ADDITIONAL FINANCING

25. **The PDO will remain the same as originally stated: to contribute to sustaining the government administrative and service delivery capacity to exercise core government functions at the national and regional levels.** The Second AF will expand the support to core government functions by including pensions, healthcare, social assistance and civilian emergency response. The Second AF will contribute to PDO achievement through partially funding pensions by the reimbursement of central budget transfers to the PFU; funding social assistance programs to vulnerable and internally displaced because of the war; funding PMG through reimbursement of the wages of healthcare workers paid under the program; and funding wage bill of first responders. The achievement of the PDO supports the Ministry of Finance's (MoF) objective of stable implementation of the State budget policy.

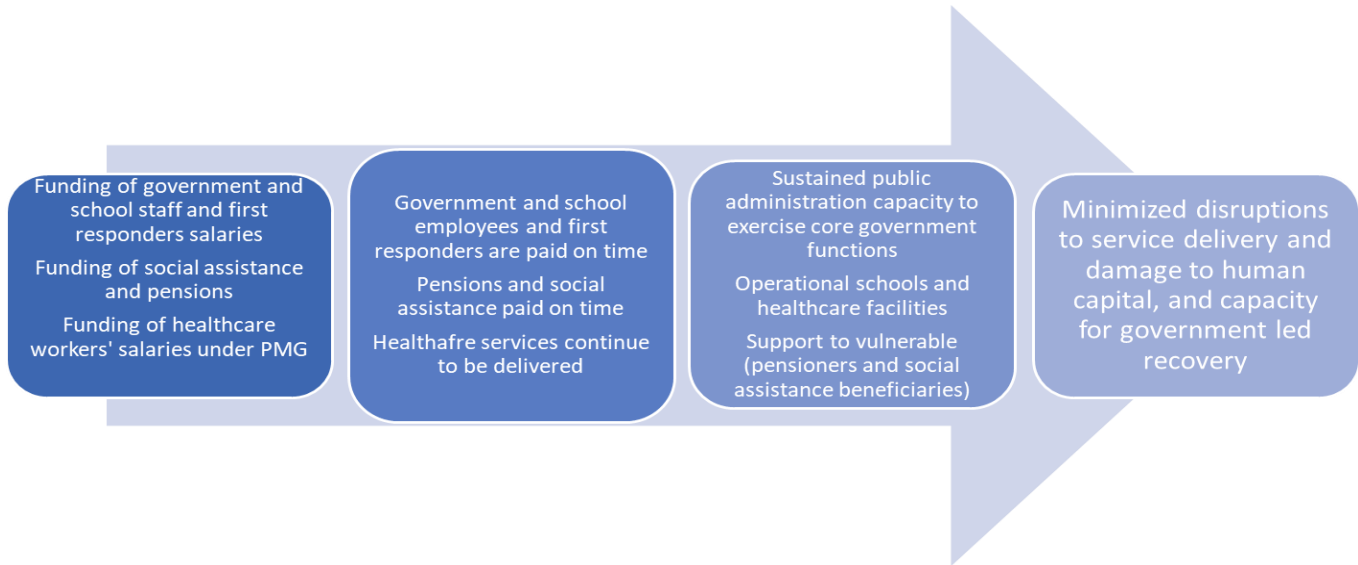
26. **The results framework of the parent project will not change, however additional indicators will help track new dimensions of sustaining government service delivery capacity and exercising of core government functions.** The government's ability to continue to pay social assistance, pensions and provide health and emergency services will be measured by the following indicators:

- a. Pensions paid on time. This indicator will be added as a PDO Indicator to measure the government's performance in making on-time pension payments (i.e., within the month when pensions are due).
- b. Social payments paid on time. This indicator will be added as an Intermediate Result Indicator to measure the government's performance in making on-time eligible social payments (i.e., within the month when payments related to the identified social programs are due).
- c. Number of health service providers operational under the PMG (baseline 2791 – target 2500 (allowing for potential damage to healthcare infrastructure)). This indicator will be added as an Intermediate Result Indicator to measure the ability of the government to continue to provide healthcare services.
- d. Salaries of SES staff paid on time. This indicator will be added as an Intermediate Result Indicator.

27. **Adjustments to the Theory of Change (ToC).** The ToC underpinning the parent project is that financing government and education staff salaries will help ensure continuity of core government functions and education services. This continues to be the case, but the ToC has been broadened by including a number of key areas of support to the most vulnerable, through provision of pensions and social assistance and supplementing it with funding salaries of staff in two critical areas of government functions – healthcare services and emergency response. Funding healthcare and first responders' wage bill can support sustained government capacity to continuous response to emergency situations during the war and provision of healthcare services. Funding pensions and social assistance will contribute to limiting the expected increase in poverty.



Figure 1. Updated Theory of Change



28. **The Second AF will build on the design of the parent project, keeping it simple and relying on country systems, while strengthening social and fiduciary arrangements when needed and practical.** As a result, the Second AF will support the budget of programs financing core government functions, pensions, social services, and health services based on government delivery systems.

29. **The Second AF will fund government programs that are essential to support vulnerable groups, complementing the parent project's support for the continuity of core government functions.** The table below outlines key areas of support under the Second AF.



Table 2. Government Program Supported by the Second AF

Line item	Pensions	GMI payments	HUS payments	Transfers to persons with disabilities	IDP payments	PMG	First responders' wages
Nature of program	Will finance pensions up to an amount subsidized from the Central Government Budget	Social assistance for low-income individuals	Social assistance to compensate payment of utility bills	Social assistance for persons with disabilities, except for payments to individuals who live in social institutions	Grants to internally displaced persons	Wage bill part of prospective payments to hospitals and clinics for health service delivery	Wages of State Emergency Service staff
Approx. monthly cost of program	March-June based on exchange rate of UAH 29.25 per USD						
	~US\$600 million per month	~ US\$40 million per month	~US\$60 million per month	~US\$30 million per month	~US\$200 million per month	~US\$250 million per month	~US\$83 million per month
Approx. monthly cost of program	July onwards based on exchange rate of UAH 36.6 per USD						
	~US\$500 million per month	~ US\$32 million per month	~US\$50 million per month	~US\$24 million per month	~US\$160 million per month	~US\$200 million per month	~US\$70 million per month

Note: A Prospective Payment is a method of reimbursement in which payment is made based on a predetermined, fixed amount. The payment amount for a particular service is derived based on the classification system of that service (for example, diagnosis-related groups for inpatient hospital services).

30. **The Second AF will add two additional components to the parent project.** Component 1 covers the expenditures of the Parent Project and the first AF, on wages of government and school employees; the new Component 2 will cover the pensions and social assistance payments; and the new Component 3 will cover the payment of healthcare workers' wages and first responders' salaries. The Second AF will only support Components 2 and 3.

31. **Component 2. Social Assistance and Pensions.** The Second AF will partially cover the following government expenditures from March 2022 onwards:

- a. **Pensions.** The project will support the part of pension payments that is funded by transfers from the central government budget. The transfer from the budget to the PFU includes pension top ups for persons with disabilities, pensioners who have dependent children, persons with disabilities, war veterans, families of deceased war veterans, those who suffered from the Chernobyl catastrophe, miners, compensation for lower social security payment from the simplified tax system, and compensation for pensioners who receive less than a minimum pension. The overall amount of budget transfer to the PFU is estimated to be at one third of the overall pension bill and as explained above, mainly funds the most vulnerable pensioners.
- b. **Social assistance.** The Second AF will support payment of GMI, HUS and programs providing social assistance to persons with disabilities, as well as the program for IDPs. The Second AF will cover government expenditures for these programs from March 2022. On social assistance for persons with disabilities, the Second AF will only cover the share of the program expenditures transferred directly to beneficiaries and exclude payments to

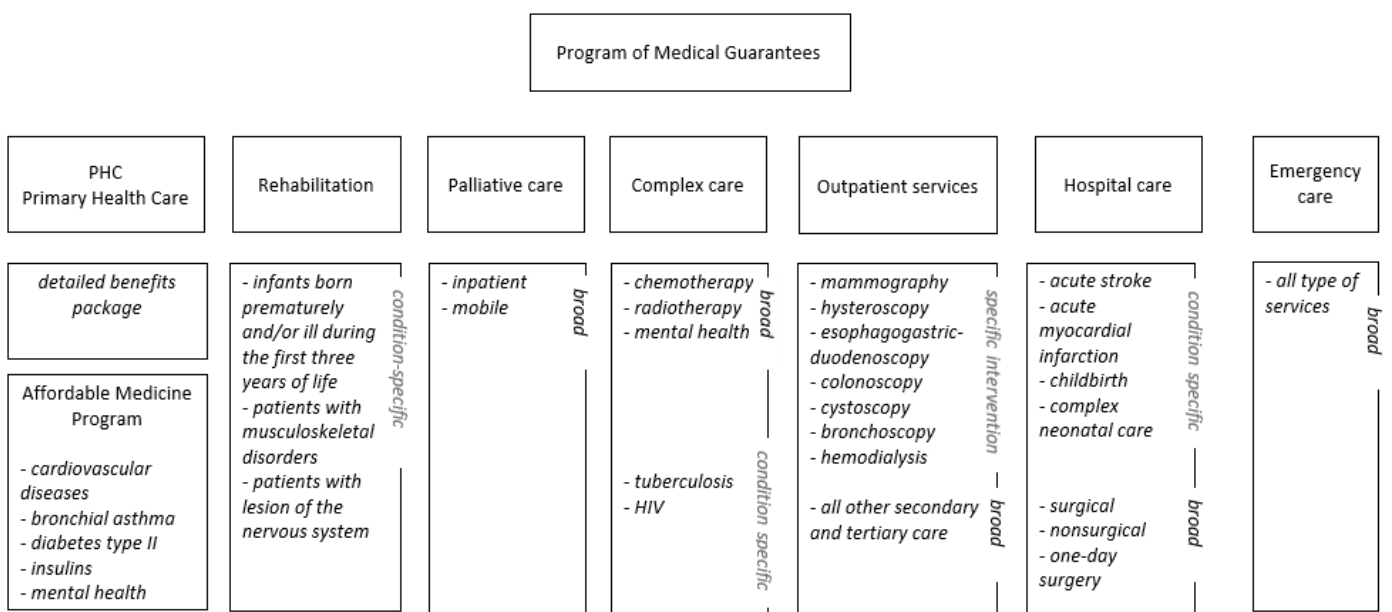


individuals who live in social institutions in order not to finance potential procurements by social institutions. This would be over 90 percent of expenditures under the program of social assistance for persons with disabilities.

32. **Component 3. Healthcare and First Responders.** The Second AF will partially cover the central government expenditures on PMG from March 2022 onwards supporting health service delivery in Ukraine by reimbursing the health workers wage bill to sustain Government expenditures for the delivery of guaranteed health services to the population. The total planned allocation for 2022 within the PMG is UAH 157 billion or US\$5 billion. The PMG comprises the packages presented in the graph below. During the first quarter of 2022, UAH 36.92 billion of US\$1.26 billion was spent to finance contracted by the NHSU providers, with over two thirds of this amount going to salaries.

33. **The Second AF will also support wages of first responders, which has been a growing expenditure item of the Government.** There are 74,224 staff members of SES, including 366 in headquarters, 58,131 in territorial units. The wage bill of first responders in March-May 2022 averaged UAH 2.98 billion per month (US\$83 million equivalent).

Figure 2. Benefits packages of the PMG in 2022



34. **The financing needs to cover social payments for the duration of the PEACE Project are vast and remain considerably larger than the amount of financing available.** The parent project was going to provide funding to partially cover the wages of a subset of public sector workers – government and school employees- from March to November 2022 and had identified a financing gap of US\$550 million. The first AF scaled up funding up to 100 percent of the government and school employees wage bill in March to July 2022, covering the identified financial gap. At the same time given the deteriorating fiscal situation it was noted that would be important to continue funding the wage bill after July 2022, justifying a financing gap of around US\$550 million until November 2022. Given the deteriorating fiscal situation and potential future contributions of development partners to the MDTF, the Second AF identifies a financing gap of US\$1.65 billion, which is about one month worth of eligible expenditures combined across parent



project expenditures and new types of expenditures added in this Second AF until November 2022.

Table 3. Government expenditures funded by the Second AF

	March	April	May	June	July	August	September	October	Total
Transfer from budget for pensions (MoF projection)	539	539	458	600	500	500	500	500	4,536
IDPs payments	5.8	132	209	200	160	160	160	160	1,347
GMI +HUS +Disabilities	260	267	169	105	110	110	110	110	1,321
PMG	250	250	250	250	200	200	200	200	2,000
First responders' wages	83	83	83	83	70	70	70	70	664
TOTAL	1137.8	1271	1169	1238	1263	1263	1263	1263	9,867.8
Covered under the Second AF:									
Pensions	539	539	458	600	500	94	-	-	2,730
IDPs payments	0	0	209	200	160	-	-	-	569
GMI +HUS +Disabilities	205	205	169	100	110	-	-	-	789
PMG	0	0	0	0	0	10	-	-	10
First responders' wages	83	83	83	83	70	-	-	-	402
TOTAL SECOND AF	827	827	919	983	843	101	-	-	4,500

Budget figures from July onwards reflect new exchange rate of UAH 36.3 per USD.

35. **The Second AF will initially be funded by contributions to the PEACE MDTF by the United States of US\$4.5 billion (MDTF2).** The Second AF will finance an amount not to exceed US\$4.5 billion for payments of eligible expenditures in the new types of expenditures made from March 1, 2022. It is expected that a significant portion of the Second AF (up to 100 percent of MDTF funds) will disburse as retroactive financing given the exceptional circumstances of the war in Ukraine and the need to ensure continuity of core government functions and sustain service delivery capacity. If additional donor resources become available, the PEACE MDTF could continue providing funding to the new types of expenditures.

Environmental and Social Category

36. **The proposed Second AF will raise the environmental and social risks from moderate to substantial** given the potential for community and worker health and safety incidents during the delivery of the social services supported by the Second AF and associated risks and impact.



III. KEY RISKS

37. **The Second AF does not change the overall risk rating of the Project but increases the environmental and social risk given the increased community health and safety risk of the additional types of expenditures introduced.**

The overall risk rating of the Project, considering the new activities and its sheer volume, remains High due to the ongoing war, with widespread and unpredictable security, political, social, and macroeconomic instability. The Environmental and Social Risk increases from Moderate to Substantial whereas the other risks remain the same. Sector Strategies and Policies risk, the Institutional Capacity for Implementation and Sustainability risk, and the Stakeholders' risk associated with the implementation of the Second AF remain as Substantial (same as the Parent project). Political and Governance, Macroeconomic and Fiduciary risks remain as High as discussed below.

38. **Political and Governance risk is High.** The ongoing war and the declaration of state of emergency on February 24, 2022, poses a major risk to the political and governance landscape. At the time of preparing this operation, the conflict appeared to be concentrated in and around the eastern part of the country, but its evolution and the potential impact on the ability of the Government to perform core functions remains highly uncertain as the war continues. The governance risks include risks related to financing of wages of healthcare workers. The Government did not control line-item expenditures of healthcare providers under the PMG before the war. As a mitigation measure, the Government will collect the information on wage payments for the project as part of the verification process.

39. **Macroeconomic risk is High.** Rising geopolitical tensions and the ongoing war have led to a severe deterioration of the macroeconomic situation in the country. Macroeconomic and financing pressures have intensified, and conditions continue to worsen. Disruptions to economic activity and the resulting decline in tax revenue are constraining fiscal space at a time when the spending pressure on the government to provide essential services and repair damaged infrastructure is increasing. Ukraine does not have the capacity to borrow externally from the market, and the ability of its domestic market to absorb additional government debt is limited. Given the severe contraction in the economy, and amid weak tax collection, the Government is faced with the difficult financial decision of whether to fully fund the other activities (including emergency restoration of critical infrastructure) at the cost of reducing key social services, or to not fully pay out wages and pensions in the near term. Either of these choices would have a significant impact on the welfare of people of Ukraine. The NBU could serve as a lender of last resort to monetize the emerging fiscal financing gap; however, the ensuing inflationary pressures will result in significant welfare losses for the most vulnerable people, significantly delay the economic recovery and risk undermining economic stability in the medium term. With large-scale monetization of the deficit or a sharp drawdown of foreign exchange reserves (with a subsequent sharper decline in the exchange rate), already high inflation can be expected to spike which would continue to erode the purchasing power of low- and middle-income households because of significant direct pass-through effects and inflationary expectations. Inflation increased from 10 percent yoy in January 2022 to 21.5 percent in June, while food and fuel prices surged even higher by 28.3 and 90.9 percent yoy respectively. Both options, cutting expenditures and deficit monetization, coming at great current costs to the population and compromising future recovery as poverty rates could climb further to levels not seen since the early 2000s. The proposed Second AF contributes to mitigating macroeconomic risks by helping the GoU to mobilize much needed financial resources to honor its now bare-bones social expenditures, limit irrevocable damage to Ukrainians' living standards, restore and rehabilitate Ukrainians' personal incomes and opportunities by sustaining the purchasing power of families for their basic needs. However, even with significant Bank financing and the development partners' pledge to continue supporting Ukraine, the country's financial needs are enormous, and will remain so in the foreseeable future.



40. **Fiduciary risk is High due to financial management risks.** There is no procurement in the project (other than for the project audit) and public financial management (PFM) systems are still operating effectively in Ukraine. The project contemplates few disbursements, likely all to be done as reimbursements to the government's treasury for expenditures already made. However, the war could affect PFM systems, and the frequency of payroll data reconciliation, especially as project implementation may extend out as far as the closing date of March 31, 2023. This phase also includes an expansion of the types of expenditures covered, which adds more risk, as does the sheer volume of financing contemplated under the MDTF. The World Bank team will closely monitor the situation with the MoF and, if needed, use manual reconciliation processes to ensure that government employees continue to be paid. The monthly structure of disbursement is expected to be viable even if some delays are experienced because the State Treasury Service currently reconciles the Treasury Single Account with the Government's commercial bank accounts daily. Risks related to the financing of wages of regional public sector workers that are displaced, or those located in territories that are not under control of the Government due to the war with Russia, are mitigated by making payments directly into the bank accounts of workers - and only to workers who are Ukrainians. In a situation where the GoU loses complete control of a part of the territory, the Government will stop making payments to that region (as was done in 2014-2015 in Crimea and the occupied regions of Luhansk and Donetsk).

41. **Social and Environmental risks are rated Substantial.** Project activities are not expected to have any direct adverse environmental and social risks or impacts. The parent project Social and Environmental risk was rated as Moderate given that project activities take place within a highly volatile context beyond the immediate control of the implementing agency. The Second AF will expand the support to cover pensions, social payments and health services that are essential to mitigate the social and economic impact of the war. The social and environmental risk of the Second AF is rated as Substantial given potential for community and worker health and safety incidents associated with exposure to ongoing war fighting and aerial bombardment during the delivery of the social services supported by the Second AF and associated risks and impacts. Some services will require participants to attend in person activities and would require essential workers to staff their places of employment or conduct outreach activities potentially increasing their risk of exposure to attack especially in eastern parts of the country. This contextual risk also increases the likelihood that vulnerable groups and individuals who may be eligible to receive such services do not seek them out for fear of exposure to war fighting and bombing. These are highly contextual and beyond the immediate control of the project and not caused by the activities supported by the Bank financing. Preventative measures for the newly introduced Second AF activities under emergency conditions will be described in the project's Environmental and Social Commitment Plan (ESCP) and POM. These include principles for information disclosure and consultation, and grievance redress mechanism (GRM). The Stakeholder Engagement Plan (SEP) for the project will be revised to define principles for information disclosure and opportunity for feedback and access to redress for complaints and concerns for newly introduced Second AF supported activities.

42. **Other:** Even though the project design maintains its basic design using country systems and electronic payments, the inclusion of additional expenditures in support of various government programs increases the technical and institutional capacity risks. MoF remains as the implementing agency as budget holder, but it would need to coordinate with Ministry of Health (MoH), SES, PFU and MoSP for verification and reporting, in addition to Ministry of Education and Science (MoES) for the parent project. Given the dire needs during the conflict, MoF's capacity for managing the project would be strengthened. Finally, the implementation of the project would include financial intermediaries – the PFU manages payment of pensions through its account in Oshchadbank – a state owned bank (the Treasury transfers money from the Single Treasury Account to the PFU's account in Oshchadbank, while the PFU finances pensions from that account to individual accounts of beneficiaries). While the Ukrainian banking system entered the war in a relatively good condition, the war is expected to affect banks' asset quality and solvency. Recent



amendments introduced a blanket guarantee for retail deposits and brought Oschadbank under the deposit guarantee system. At the same time, loss of assets, collateral, and revenues will severely affect banks' profitability and solvency.

IV. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

43. **The Second AF will expand the parent project's benefits in mitigating the humanitarian crisis and its impact on human capital.** The toll of destruction, damage, and dislocation in Ukraine from the war continues to grow. More than 8.7 million people (about half of whom are children) had become refugees⁶ and about 6.3 million people had been displaced internally⁷ and double that number were estimated to be need of life-saving humanitarian assistance, with food and essential services severely constrained in the areas affected by the fighting and a third of displaced households reporting no income. Next to loss of life and human suffering, the Russian invasion has crippled Ukraine's economy with large adverse social and poverty impacts. Latest WB estimates suggest that poverty, based on the upper middle-income poverty line of US\$5.5 per person per day, is projected to increase tenfold from a low base, with the share of the population below the poverty line increasing from 2 percent in 2021 to 21 percent in 2022. Poverty rates in regions most affected by the war are expected to increase much more. Therefore, providing additional funding for pensions, social payments and healthcare will help the government to provide support to the most vulnerable groups, such as elderly, families with kids, and persons with disabilities.

44. **The Second AF will also further support the parent project's indirect benefits of preserving human capital and reducing the risk for the country to fall into the fragility trap, maintaining trust in the Government's capacity to deliver basic services during the war.** The war resulted in a significant decline in fiscal revenues. The expenditures were cut significantly (including capital expenditures by almost 90 percent) and reduced only to the most critical social items, but despite this, the revenues are projected to cover only around 60 percent of non-military expenditure in 2022. Tax and non-tax revenues will remain depressed for the foreseeable future, during and for a period after the war. However, critical public social expenditures are still on the rise due to active military conflict. With intensified combat in the south-east part of the country, central government expenditures on social programs increased in June by more than 50 percent m.o.m largely due to one-off payments to internally displaced people. Thus, it is critical to support government in ensuring public service functions in meeting the basic needs of the population to be maintained.

B. Technical

45. **Overall, the status of preparation is satisfactory, and the Second AF is ready for implementation.** The Second AF will use the implementation arrangements on overall project management, financial management and audits as established under the parent project. Within the MoF, there is a seamless linkage between the parent project implementation and Second AF preparation. The project is well performing, and the Second AF will both scale up and restructure the project.

46. **The governance and institutional arrangements are designed to fit the current circumstances by using government processes where possible and ensuring the least additional administrative burden on the Government.**

⁶ UNHCR estimate July 8, 2022 (data2.unhcr.org/en/situations/ukraine).

⁷ IOM estimate as of July 8, 2022 (displacement.iom.int).



The first verification report for March-May 2022 was submitted by the MoF under the parent project and the first AF and was found satisfactory by the Bank. The Second AF will keep the parent project's arrangements, relying on the existing country system procedures which were deemed as satisfactory before the crisis and have continued to function during wartime. For social assistance, the MoF will reconcile treasury payment data with verification of that social assistance payments and IDP program payments made by the MoSP. For pensions, the verification will only ensure that funds are transferred from the Treasury to the PFU. The PFU will provide a monthly report on all pensions paid in Ukraine. For PMG, the NHSU will provide information on payments to the healthcare facilities and verify that payments have reached all the facilities. The NHSU will also collect information at the end of each month of salary expenditure of healthcare facilities, which would be a basis for reimbursement.

47. **The MoF will update the POM** to reflect institutional arrangements and verification mechanisms for new types of eligible expenditures which will be adopted by the MoF. The POM will lay out the project's overall operating, fiduciary, verification protocols, decision-making procedures, eligibility criteria, and results monitoring arrangements. The POM will be updated within two weeks after the effectiveness of the Second AF.

48. **Monitoring and Evaluation system.** For monitoring, the project will rely on data from the GoU, including that of the State Treasury System (STS). The MoF will monitor this data monthly and report on project results (including PDO indicators and intermediate result indicators), which the World Bank team will review as part of its project monitoring.

49. **Implementation Arrangements.** The enhanced scope of the project makes coordination considerably more difficult task on the MoF side, with need to coordinate with NHSU, SES, PFU and MoSP, in addition to the MoES for the parent project. While the verification procedures remain similar across all categories, the sheer volume of data would require strengthening of MoF capacity to coordinate and manage the project. Paragraphs 50-57 provide details on implementation arrangements for social benefits, pensions and healthcare. The implementation arrangements for wages of first responders will be identical to the arrangements under the Parent Project. The Department of Expenditures of Public Authorities of the MoF monitors monthly wage bill payments of government employees, including first responders, and will send reports for reimbursement of wage bill expenditures to the Project Coordinator.

Social Benefits

50. **The Ministry of Finance of Ukraine will remain the Implementing Agency of the project.** The appointed Project Coordinator (Deputy Minister) will oversee project implementation, monitor progress, and ensure prompt delivery and reporting on project indicators. The Project Coordinator will continue to act as a focal point for communication with the World Bank team on project-related issues.

51. **For monitoring, the project will rely on data from the GoU.** The project would mainly use existing arrangements within the GoU, and ongoing coordination within the MoF, MoH, NHSU and MoSP with the STS and ministries, agencies, and state and rayon oblast administrations. The arrangements for implementation and targeting social assistance payments are listed below and are in line with the ones used previously for the Social Safety Net Project that the Bank supported.

52. **According to the Budget Code of Ukraine, the state budget expenditures on social assistance for persons**



with disabilities since childhood and children with disability, GMI, IDPs and HUS (social benefits) are identified as protected budget expenditures. They are managed through the Single Treasury Account hosted by the STS, according to the cost estimates of the MoSP (the Key Spending Unit of those programs) based on an annual budget law. The STS reports on actual monthly expenditures are automatically compiled by the Government's e-Kazna system with a breakdown by relevant budget programs. The disbursement of social assistance expenditures to a recipient can be done from both the central and subnational level based on the type of social assistance and considering the war-affected status of the territory. However, the mentioned above STS monthly reports are not disaggregated by those levels, nor by territories (regions, cities and rayons). The STS exercises control over allocation and cash availability.

53. **The payment mechanism for the social assistance for IDPs envisages fully digitalized payments through the banking system.** The MoSP transfers payments through the Oshchadbank to the individual bank accounts of the beneficiaries indicated by the beneficiaries at their enrollment.

54. **The Department of Social Expenditures (DSE) of the MoF** oversees ex post controls based on STS reports on the execution of the respectful budget programs. Under this project, the DSE will continue to monitor state budget expenditures on social benefits, obtaining STS reports. In addition, the DSE will obtain monthly reports from the MoSP on amounts transferred to the banks and number of beneficiaries disaggregated by the types of social benefits and by regions. If needed, the DSE will consult with the MoF's Unit of Verification of Social Expenditures under the Department of Coordination and Monitoring (DCM). The DCM manages the Payment Verification Information System which contains personal information of each social security assistance recipient (including social benefits and pensions) and is updated as changes occur. The DSE will then send the reports for reimbursement of social benefits expenditures to the Project Coordinator.

Pensions

55. **The PFU manages payment of pensions through its account opened in Oshchadbank.** The project will finance the state budget program on Ensuring of Financing of Pensions, Pension Increase, and the Pension Fund's Deficit. Under that budget program, the Treasury transfers money from the Single Treasury Account to the PFU's account in Oshchadbank. The PFU finances pensions from that account to individual accounts of beneficiaries, including in commercial banks or through Ukrposhta. The STS reports on the monthly basis of the execution of the mentioned budget program and exercises controls against allocation and cash availability.

56. **The DSE of the MoF** oversees ex-post controls based on STS reports on the execution of the above-mentioned budget program. Under this project, the DSE will continue to monitor those expenditures, obtaining STS reports. In addition, the DSE will obtain monthly reports from the MoSP on amounts transferred from the PFU to banks and Ukrposhta, disaggregated by regions. The MoSP will also report on the status of pension arrears by regions. The DSE will then send the reports for reimbursement of pension expenditures to the Project Coordinator.

Healthcare

57. **The NHSU contracts out healthcare providers and transfers prospective payment to contracted providers through the Treasury Single Account.** The MoF will verify that the information from NHSU reconciles with the Treasury payment data. NHSU will provide information on payments to the healthcare facilities and verify that payments have reached all the facilities. The NHSU will also collect information at the end of each month of salary expenditure of healthcare facilities, which would be a basis for reimbursement. As salaries of healthcare workers under PMG are not paid through the Treasury and decided at the provider level, no individual payment verification would be carried out.



Emergency Workers

58. **Salaries of SES staff are paid similarly to all government employees.** The SES sends a payment request to the Treasury to transfer money to the commercial bank. SES also sends payment instructions to commercial bank, which executes payments to individual bank accounts of staff. The verification process will follow the same approach as for wages of government and school employees.

59. **The MoF and coordinating ministries will ensure the collection and processing of personal data⁸** is managed under applicable national law with a view to ensuring the legitimate, appropriate and proportionate use of such data in accordance with best practice.

C. Financial Management

60. **The PFM system continues to be reliable.** Financial controls including commitments and payments continue to be functional during the war, and social benefits and pensions have been paid during February-June 2022. The controls on these payments are sound, ensuring that even during the war, relevant records are updated. MoF will rely on its existing system for planning and execution of eligible government expenditures that are financed by this Project. It is expected that MoF would consolidate, review, and submit monthly reports on social assistance, pensions and PMG expenditures to be reimbursed by the project. For the social assistance, the MoF will reconcile treasury payment data with verification of social assistance payments and IDP program payments made by MoSP. For the pensions, the verification will only ensure that funds are transferred from the Treasury to the PFU. The PFU will provide a monthly report on all pensions paid in Ukraine. For PMG, the NHSU will provide information on payments to the healthcare facilities and verify that payments have reached all the facilities. The NHSU will collect information on healthcare worker salary payments under PMG from healthcare facilities and submit the report to the MoF for consolidation.

61. **As with the parent project and the first restructuring, additional fiduciary arrangements will be required for this operation, given the current outbreak of war which could affect PFM institutions and processes.** In addition to the government's own verification processes, monthly government reports submitted for reimbursement under the project will be reviewed by the World Bank task team prior to processing respective disbursements.

62. **The scope of the audit contemplated under the parent project will be expanded to cover this Second AF.** The independent audit of the eligible expenditures will go beyond the regular audit of financial statements, to include tests to verify the eligibility of project expenditures. It is expected that an independent and experienced auditor acceptable to the World Bank would carry out the financial audit, along with additional assurance procedures with respect to the eligible expenditures for the entire period that is financed by the Project, in line with the Terms of Reference agreed with the World Bank.

63. **As in the parent project and the first AF, Second AF disbursements will occur based on withdrawal**

⁸ "Personal Data" means any information relating to an identified or identifiable individual. An identifiable individual is one who can be identified by reasonable means, directly or indirectly, by reference to an attribute or combination of attributes within the data, or combination of the data with other available information. Attributes that can be used to identify an identifiable individual include, but are not limited to, name, identification number, location data, online identifier, metadata and factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of an individual.



applications which would be submitted monthly by the MoF, for expenditures starting from March 1, 2022. Withdrawal applications would be supported by the monthly report(s) on actual eligible expenditures incurred for the past month(s), reconciled to State Treasury records and reviewed by the World Bank. Disbursements will be made by the World Bank to a segregated US Dollar denominated account of the state treasury in the NBU that would be indicated by the Government, and then converted and credited to the government State Treasury account in UAH. It is expected that a significant portion of this Second AF will be disbursed as retroactive financing.

Verification of the Pensions

64. **The MoF verifies that transfers from the central budget have reached the PFU, based on Treasury data.** The amount of these transfers will be the eligible expenditure under this project. In addition, the PFU submits a report verifying that pensions were paid for the entire population of pensioners. The PFU report is expected on every 15th day of the month that follows the reporting month. In cases when the Pensions could not be delivered through Ukrposhta in several regions where fighting occurs, this would be reflected in the report. The Project will not be able to link the projects funds to specific pensions paid, but will include an indicator in its revised results framework, for the timely payment of pension benefits. The pensions paid are expected to exceed the transfers from the central government budget to the PFU.

Verification of the SSN Payments

65. **The MoF verifies bulk payments based on the Treasury data, the MoSP will provide verification of the spending on four selected SSN programs.** The MoSP report for each program will be based on the MoSP spending report that was verified in most regions and presented as expenditure per oblast. A verified spending report becomes available on every 10th day of the month that follows the reporting month. There is potential difficulty with verification of spending on SSN programs in several regions where fighting occurs. In these regions, verification is executed by the MoSP through the Oshchadbank that reports back to the MoSP on the total amount spent on the program in all these regions. IDP program verification is done by the MoSP through the Oshchadbank statements.

Adjustment of the Benefits' Payment and Verification Model During the War with Russia

66. **On March 7, 2022, the GoU adopted Resolution No 215, which regulates the administration and provision of payments under the GMI and HUS programs, social assistance for persons with disabilities since childhood and children with disability, and other types of benefits for the duration of the martial law.** The regular payment model for benefits, which continues to operate in safe areas of the country, includes payments either through the branches of authorized banks or through the offices of the national postal operator (Ukrposhta) - at the discretion of the recipient. The Ukrposhta clients can choose to receive their payments in person - either at the post office or through home delivery. Before the war, over 85 percent of social assistance beneficiaries received their payments through authorized banks; this share is expected to rise significantly during the war.

67. **In the war-affected areas of Ukraine,** where the social welfare units have no capacity to ensure the preparation of the payment statements and making transfers, the following procedure, which is satisfactory to the Bank, is used:

- a. The MoSP finances benefits based on the data from the Data Processing Center of the MoSP.



- b. Based on these data, the overall sum of benefits is transferred by the MoSP to the State Savings Bank of Ukraine (Oshchadbank), which transfers payments to the individual accounts of the beneficiaries or makes transfers through the My Transfer payment system:
 - o Oshchadbank transfers funds of those beneficiaries who before the war received payments through the authorized commercial banks - to their individual accounts in these banks, or
 - o Oshchadbank transfers funds of those beneficiaries who prior to the war received payments through the Ukrposhta - using the My Transfer payment system, which allows the beneficiary to receive payments without opening an account.
- c. On the first day of every month, the Oshchadbank reports to the MoSP on the amounts of transfers made.
- d. When beneficiaries who receive benefits without opening individual bank accounts (c.ii case above) do not claim the benefits for more than 30 calendar days, the funds are returned to the MoSP by Oshchadbank. The MoSP then transfers funds to the PrivatBank as it operates the largest network of branches and ATMs in Ukraine. If beneficiaries do not claim benefits from PrivatBank during 30 calendar days, the funds are returned to the MoSP and beneficiaries need to reach out to MoSP through different available means to receive the benefits.
- e. The MoSP and Oshchadbank ensure outreach to beneficiaries to inform them about the arrangements related to their payments.
- f. Within two months after the lifting of martial law, the social welfare units will reconcile the amounts paid to beneficiaries.

Verification of the Health Workers Salaries under PMG Payments

68. **The MoF verifies payments to the PMG program based on the Treasury data.** The NHSU verifies payments to healthcare providers and collects monthly reports on salary payment from each healthcare provider. While expenditures at the healthcare provider level are not done through the Treasury Single Account, the project will reconcile the data collected and reimburse wage bill expenditures funded under the PMG. The MoF will consolidate verification report based on all sources of data.

Verification of the First Responders' Salaries

69. **The MoF verifies payments of salaries of the SES staff based on the Treasury data and payroll data of SES.** MoF will use Treasury data and reconcile with the payroll data of the SES. The MoF will consolidate verification report based on all sources of data.

D. Procurement

70. **There are no procurement processes envisaged under the Second AF. The audit will be financed under the original Bank financing.**



E. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

F. Environmental and Social

Social

71. **The activities supported by the Project are not expected to have any direct adverse social risks or impacts, but they take place within a highly volatile context beyond the immediate control of the implementing agency.** The proposed Second AF will introduce additional types of expenditures in the parent project and will update the economic, financial and technical analysis and results framework to fully reflect the impact of the new activities. The proposed Second AF will support the GMI program, which is Ukraine's anti-poverty program that provides monthly benefits to low-income families with children, calculated as the difference between the Subsistence Minimum for a family and monthly family income. The House Utility Subsidy program is the largest means-tested program, which provides financial support for the payment of utility bills by capping how much households spend to cover a normative amount of consumption. Among other activities supported by the Second AF is social assistance for persons with disabilities since childhood and children with disability under 18-years-old, social assistance for IDP's, and pensions payments. The proposed Second AF will partially cover the PMG by reimbursing the health workers' wage bill to sustain Government expenditures for the delivery of guaranteed health services to the population.

72. **The scale up of the original project by introducing additional types of expenditures results in substantial social risks arising from potential safety and health incidents associated with exposure to the war and aerial bombardment during delivery of services.** The original project provided funding to the wage bill of non-security sector government employees and school employees who are integral for ensuring continuity of core government services (mainly public administration and education services) and preventing erosion of learning outcomes. The additional funding will expand this support to cover pensions, social payments and health and emergency services that are essential to mitigate the social and economic impact of the war. The social risk is substantial given the potential for community and worker health and safety incidents during the delivery of the social services supported by the Second AF and associated risks and impacts. Some services will require participants to attend in person activities and would require essential workers to staff their places of employment or conduct outreach activities potentially increasing their risk of exposure to attack, especially in eastern parts of the country. This contextual risk also increases the likelihood that vulnerable groups and individuals who may be eligible to receive such services do not seek them out for fear of exposure to war fighting and bombing. These are highly contextual and beyond the immediate control of the project and not caused by the activities supported by the bank financing. Preventative measures for the newly introduced Second AF activities under emergency conditions will be described in the project's ESCP and POM. These include principles for information disclosure and consultation, and GRM. The SEP for the project will be revised to define principles for information disclosure and opportunity for feedback and access to redress for complaints and concerns for newly introduced Second AF supported activities.



73. **Data collection and processing.** Personal data are likely to be collected and processed in connection with Project activities, particularly in the case of social benefits payments. This may include the processing of sensitive data (including biometrics), which are collected and managed by the MoSP under their existing social assistance programs to support the identification (to determine uniqueness) and authentication (determining that the person eligible to receive the cash transfer is in fact the person they say they are). Ukraine currently has a data protection law of general application (Law No. 2297 VI 'On Personal Data Protection' as of June 1, 2010) that essentially meets international standards, albeit is in the process of being updated. Since 2014, the Ukrainian Parliament's Commissioner for Human Rights (Ombudsman) is the state authority in charge of overseeing compliance with the data protection law.

74. **In order to guard against abuse of this data, Project activities will be implemented in accordance with the applicable national legal framework and good international practices for dealing with such data in such circumstances.** Such measures include complying with use limitations (data are only used for legitimate and related purposes to the disbursement of cash transfers), data minimization principles (only collecting and processing the data that is necessary for the legitimate purpose), limits on data retention (retaining the data only for as long as they are necessary), where practicable informing individual data subjects of how their data is used and processed, and allowing data subjects the opportunity to correct information about them and seek redress for abuse of these provisions, etc. Additional technical and organizational measures should be taken to ensure the protection of personal data against unlawful processing (loss, unlawful or accidental elimination) and unauthorized access, including by third parties.

Gender

75. **The war in Ukraine exacerbated vulnerabilities and heightened economic, social, and health risks for women and girls.** The full-scale invasion causes civilian casualties and destruction of civilian infrastructure, forcing people to flee their homes seeking safety, protection, and assistance. The Office of the United Nations High Commissioner for Human Rights recorded 10,631 civilian casualties in Ukraine as of June 26, including 4,731 deaths and 5,900 injuries.⁹ The gender impact of the armed conflict depends on the country's demographic profile, which includes large numbers of older women, women and girls with disability, as well as internally displaced and refugee women and girls. Since the onset of the Russian invasion, nearly one-third of Ukrainians have been forced from their homes. As of May 23, 2022, over 7.1 million people have been displaced within Ukraine, 65 percent of whom are women. Seventy-seven percent of IDP households contain at least one boy, and 84 percent have at least one girl between the ages of 5 and 18.¹⁰ An estimated 5 million people have fled their homes to the neighboring countries.¹¹ Ninety percent of refugees are women and children,¹² while most men aged 18–60 are required to stay behind under martial law. Ukraine has a large number of people with disabilities (over 2.7 million), of whom more than one million are women and girls. Rapid Gender Analysis conducted by the UN Women and CARE revealed that women are facing immense hardship when it comes to health, safety, and access to food as a result of the war.

76. **Access to social protection is critical for mitigating the vulnerabilities of women and their families.** Women

⁹ Casualties included: a total of 4,731 killed (1,812 men, 1,225 women, 134 girls, and 155 boys, as well as 41 children and 1,364 adults whose sex is yet unknown) and a total of 5,900 injured (1,196 men, 829 women, 131 girls, and 174 boys, as well as 184 children and 3,386 adults whose sex is yet unknown), OHCHR, June 27, <https://www.ohchr.org/en/news/2022/06/ukraine-civilian-casualty-update-27-june-2022>

¹⁰ IOM, General Population Survey, Round 6, 23 June 2022, file:///C:/Users/wb481970/Downloads/IOM_Gen%20Pop%20Report_R6_final.pdf

¹¹ IOM, Situation Report #21, [file:///C:/Users/wb481970/Downloads/iom-regional-ukraine-response-external-sitrep-10062022-final%20\(2\).pdf](file:///C:/Users/wb481970/Downloads/iom-regional-ukraine-response-external-sitrep-10062022-final%20(2).pdf)

¹² UN Women and CARE, Rapid Gender Analysis, May 4, <https://www.unwomen.org/sites/default/files/2022-05/Rapid-Gender-Analysis-of-Ukraine-en.pdf>



are disproportionately affected by the crisis. They experience heightened economic stress caused by the double burden of the house- and care-work and limited financial resources. Women constitute 54 percent of the population and 71 percent of all heads of households are female. During the war, many women were left to care for their families on their own, including by being responsible for earning an income for their household. This can be due to their husband being unemployed, conscripted, or deceased or due to family separation. For many women, social assistance or pension is the only source or the largest share of income. Women represent most pensioners and SSN beneficiaries supported by the proposed Second AF, including 68 percent of the GMI program beneficiaries, 62 percent of the HUS beneficiaries, and over 67 percent of the IDP assistance beneficiaries. Out of 10.8 million pensioners, around 64 percent are women. Given the growing number of the newly low income and vulnerable women, the financing of pensions, social assistance for IDPs, persons with disabilities since childhood and children with disability, as well as GMI and HUS programs, provided under the Second AF is critical to ensure their food security, safety, and continuity of health care and social services.

Citizen Engagement

77. **Despite the difficult operating environment, the Second AF has prepared the SEP and will expand the parent project's GRM to cover beneficiaries of additional types of expenditures.** The project's GRM, which is not limited to safeguards, will allow for two-way communication between citizens and the government and will establish multiple channels to receive not only grievances but also feedback from citizens. The project will rely on existing communication channels maintained by the Government, including those by the MoES, the MoH, and the MoSP. Pensioners and beneficiaries of all SSN programs, including GMI, HUS, social assistance for the IDPs, and social assistance for persons with disabilities since childhood and children with disability, can use the multi-channel GRM operated by the MoSP. The MoSP maintains an easily accessible GRM with functions, staffing, and resources, enabling stakeholders to submit complaints, information requests, suggestions, and feedback through various channels (phone, email, physical mail, online, and during visits). Grievances can be submitted in-person in the Public Reception Office of the MoSP. The MoSP discloses semi-annual GRM performance reports on its website. The '15-45' Government Hotline can be used to submit complaints and other types of appeals related to social assistance and pension provision and the '15-39' hotline for beneficiaries of social assistance programs and persons with disability. Pensioners can use the same channels as other social protection beneficiaries. According to the GRM report disclosed by the MoSP, 31.1 percent of all grievances/information requests received in 2021 were related to pensions. Currently, PFU continues to operate its regional offices and more than 470 local service delivery centers/units - located in the government-controlled areas of Ukraine. Pensioners can submit complaints, information requests, suggestions, etc. in these centers/units or use the other channels (website, mobile applications, PFU hotline, email). The Beneficiary Feedback indicator from the Parent Project will be used (Percentage of Grievances addressed) and capture grievances across types of expenditures covered under Parent Project, First and Second AFs.

78. **Government employees will remain subject to the terms and conditions of their existing employment arrangements and civil service grievance redress.** Principles for protecting against harmful labor, child labor and security forces activities will also be described in the ESCP, including ensuring access to service providers responding to sensitive incidents such as those related to Sexual Exploitation and Abuse/Sexual Harassment and other forms of violence that may be associated with the invasion context. Labor risks will be addressed through the Client's commitment in the ESCP, and clear guidance provided in the POM to comply with the relevant requirements of ESS2. The existing civil service GRM is governed by a legal framework comprising the Labor Code, Civil Service Law, and statutes of government agencies and covers all human resource related issues including payroll. The complaints are



handled by the employer, NACS, and if not resolved could be escalated to courts.

Environment

79. **The Second AF will not support physical works or envisage any other kind of activities that may cause direct or indirect environmental impacts.** The environmental rating is moderate given potential for community and worker health and safety incidents during the delivery of the social services supported by the Second AF and associated risks and impact.

Climate Change

80. **Climate risk screening has been conducted for the Second AF.** The nature of this operation limits its potential to directly support climate action as requested by WBG's corporate commitments on climate. Ukraine is at risk of hydrometeorological hazards and natural disasters such as droughts, high temperatures, heat waves, wildfires, soil erosion, mudflows, extreme precipitation and flooding, which primarily affect the sectors of agriculture, water resources, energy, transportation, health, the urban environment and forests. Due to climate change, Ukraine has been experiencing an increase in the frequency and severity of natural disasters (such as droughts and floods) - causing in many cases, fatalities and leading to significant economic losses.¹³ Given the nature of the proposed second AF, climate resilience-enhancing measures are not prioritized in the project design. However, by helping to sustain the Government functions, this operation supports the efforts to maintain the expertise and human resources that were engaged in the implementation of the ambitious climate action strategies and action plans of Ukraine. These resources will play a crucial role in integrating climate action in future reconstruction programs and will enable the continuation of Ukraine's climate action strategies and action plans after the war.

V. WORLD BANK GRIEVANCE REDRESS

81. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

¹³ World Bank Climate Change Knowledge Portal. 2022. Ukraine: <https://climateknowledgeportal.worldbank.org/country/ukraine/vulnerability>.



VI SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Disbursements Arrangements	✓	
Legal Covenants	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓

VII DETAILED CHANGE(S)

COMPONENTS

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
	0.00	New	Social Assistance and Pensions	4,085.00
	0.00	New	Healthcare and First Responders	415.00
Support to government and school employees wage bill	2,791.80	Revised	Support to government and school employees wage bill	2,791.60
Audit and administrative expenses	0.20	Revised	Audit expenses	0.40



TOTAL	2,792.00		7,292.00
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DISBURSEMENT ARRANGEMENTS

Change in Disbursement Arrangements
Yes

Expected Disbursements (in US\$)

Fiscal Year	Annual	Cumulative
2022	1,772,642,302.32	1,772,642,302.32
2023	5,519,000,000.00	7,291,642,302.32

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	● High	● High
Macroeconomic	● High	● High
Sector Strategies and Policies	● Substantial	● Substantial
Technical Design of Project or Program	● Substantial	● Substantial
Institutional Capacity for Implementation and Sustainability	● Substantial	● Substantial
Fiduciary	● High	● High
Environment and Social	● Moderate	● Substantial
Stakeholders	● Substantial	● Substantial
Other		
Overall	● High	● High

LEGAL COVENANTS – Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine (P178946)

Loan/Credit/TF	Description	Status	Action
IDA-71530	The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness	Complied with	No Change



	or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.		
IBRD-94030	The Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.	Complied with	No Change
-	The Borrower has adopted the Project Operational Manual (“POM”) in accordance with Section I.B. of Schedule 2 to this Agreement	Complied with	No Change
-	The Recipient has adopted the Project Operational Manual (“POM”) in accordance with Section I.B. of Schedule 2 to this Agreement.	Complied with	No Change
-	Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed \$€446,795,200 may be made for payments made prior to this date but on or after March 1, 2022, for Eligible Expenditures under Category (1).	Complied with	No Change
-	Notwithstanding the provisions of Part A above, no withdrawal shall be made under Category (1), until and unless the Recipient has furnished evidence satisfactory to the Association in accordance with the verification protocols set forth in the POM, showing that the Salaries for Eligible Employees have been paid.	Not yet due	No Change
-	Notwithstanding the provisions of Part A above, no withdrawal shall be made under Category (1), until and unless the Borrower has furnished evidence satisfactory to the Bank in accordance with the verification protocols set forth	Not yet due	No Change



	in the POM showing that the Salaries for Eligible Employees have been paid.		
-	Notwithstanding the provisions of Part A above, no withdrawal shall be made under Loan A, until and unless the Bank and the UK Guarantor have signed the UK Guarantee Agreement and the UK Guarantee Agreement has been delivered to the Bank and has become effective.	Complied with	No Change
-	Notwithstanding the provisions of Part A above, no withdrawal shall be made under Loan B, until and unless the Bank and the Dutch Guarantor have signed the Dutch Guarantee Agreement and the Dutch Guarantee Agreement has been delivered to the Bank and has become effective.	Expected soon	No Change
-	Notwithstanding the provisions of Part A above, no withdrawal shall be made under Loan C, until and unless the Bank and the Lithuanian Guarantor have signed the Lithuanian Guarantee Agreement and the Lithuanian Guarantee Agreement has been delivered to the Bank and has become effective.	Expected soon	No Change
-	Notwithstanding the provisions of Part A above, no withdrawal shall be made under Loan D, until and unless the Bank and the Latvian Guarantor have signed the Latvian Guarantee Agreement and the Latvian Guarantee Agreement has been delivered to the Bank and has become effective.	Expected soon	No Change
-	The Borrower undertakes that no Loan proceeds or resources may be used for defense, security, or military purposes, or for any payments made to any defense, security, or military forces.	Not yet due	New
-	If the Bank determines, at any time, that an amount of the Loan was used to make a payment for either: (i) ineligible	Not yet due	New



	expenditures; or (ii) used for defense, security, or military (including any other types of military forces, if such may be relevant) purposes, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such expenditures financed by the Bank.		
IDA-71530	The Recipient undertakes that no Credit proceeds or resources may be used for defense, security, or military purposes, or for any payments made to any defense, security, or military forces.	Not yet due	New
IDA-71530	If the Bank determines, at any time, that an amount of the Loan was used to make a payment for either: (i) ineligible expenditures; or (ii) used for defense, security, or military (including any other types of military forces, if such may be relevant) purposes, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such expenditures financed by the Bank.	Not yet due	New
TF-B9038	The Recipient undertakes that no Grant proceeds or resources may be used for defense, security, or military purposes, or for any payments made to any defense, security, or military forces.	Not yet due	New

LEGAL COVENANTS – Second Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine (P179456)

Sections and Description

No later than one (1) month after effectiveness of the Grant Agreement, the Recipient shall update the POM in form and substance acceptable to the Bank, containing, inter alia, detailed: (i) implementation and institutional arrangements for the Project; (ii) administrative; (iii) procurement; (iv) financial management and accounting; (v) monitoring and evaluation; (vi) eligibility criteria for the selection of Eligible Employees under Part 1.(a) of the Project; (vii) verification protocols and procedures for payment of Salaries of Eligible Employees; (viii) eligibility criteria, amounts and procedures for monthly pension payments and payments under the GMI Program, HUS Program, Disability Program and IDP Program under Part 2 of the Project, (ix) eligibility criteria, amount and procedures for PMG Payments and payment of Salaries of Eligible First Responders under Part 3 of the Project (x) grievance mechanism for the Project; (xi) personal data collection and processing in accordance with applicable national law and good international practice and (xii) such other technical, administrative, fiduciary or



coordination arrangements as may be necessary to ensure effective Project implementation.

The Recipient undertakes that no Grant proceeds or resources may be used for defense, security, or military purposes, or for any payments made to any defense, security, or military forces.

If the Bank determines, at any time, that an amount of the Grant was used to make a payment for either: (i) ineligible expenditures; or (ii) used for defense, security, or military (including any other types of military forces, if such may be relevant) purposes, the Recipient shall, promptly upon notice from the Bank, refund an amount equal to the amount of such expenditures financed by the Bank. All amounts so refunded to the Bank pursuant to the abovementioned request will be subsequently cancelled.

Conditions

Type	Financing source	Description
Disbursement	Trust Funds	The Recipient has furnished evidence satisfactory to the Bank in accordance with the verification protocols set forth in the POM, that payments (i) for monthly pensions, (ii) for GMI Program, HUS Program, Disability Program, and IDP Program; (ii) Salaries of Eligible First Responders, and (iii) of PMG Payments, have been made.
Disbursement	Trust Funds	Withdrawals up to an aggregate amount not to exceed \$4,500,000,000 may be made for payments made prior to the Signature Date of the Grant Agreement but on or after March 1, 2022.



VIII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Ukraine

Second Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine

Project Development Objective(s)

To contribute to sustaining the government administrative and service delivery capacity to exercise core government functions at the national and regional levels

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	End Target
Core government functions are maintained			
Government continues to exercise core functions (Number)		5.00	4.00
Number of public administration staff paid in non-security sectors (Text)		160,000.00	At least 85% of staff paid in the baseline month
Number of female civil servants paid on time (Text)		110,000.00	At least 85% of staff paid in the baseline month
Action: This indicator has been Revised			
Number of school employees paid on time (Text)		450,000.00	At least 85% of staff paid in the baseline month
Action: This indicator has been Revised			
The number of female school employees paid on time (Text)		300,000.00	At least 85% of staff paid in the baseline month



Indicator Name	PBC	Baseline	End Target
<i>Action: This indicator has been Revised</i>			
Number of schools that remain operational (Number)		13,866.00	10,000.00
Share of pensions paid on time (Percentage)		100.00	90.00
<i>Action: This indicator is New</i>			
Share of pensions paid to female pensioners (Percentage)		65.00	85.00
<i>Action: This indicator is New</i>			

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Component 1: Government and School Employees (Action: This Component has been Revised)			
Central and regional government staff in non-security sectors paid on time (Text)		100.00	Wage bill for October is paid with 70% paid on time.
Percentage of Grievances Addressed (Percentage)		0.00	70.00
Number of schools that remain operational (Number)		13,866.00	10,000.00
<i>Action: This indicator is New</i>			



Indicator Name	PBC	Baseline	End Target
Component 2: Social Assistance and Pensions (Action: This Component is New)			
Social payments paid on time (Yes/No)		No	Yes
<i>Action: This indicator is New</i>	<i>Rationale: Core government functions are maintained</i>		
Share of social payments paid on time to female beneficiaries (Percentage)		90.00	85.00
<i>Action: This indicator is New</i>			
Component 3: Healthcare and First Responders (Action: This Component is New)			
Number of health service providers operational under the PMG (Number)		2,791.00	2,500.00
<i>Action: This indicator is New</i>	<i>Rationale: Core government functions are maintained</i>		
Salaries of SES staff paid on time (Percentage)		100.00	85.00
<i>Action: This indicator is New</i>	<i>Rationale: The indicator measures that 100 percent of first responders salaries (SES staff) are paid on time.</i>		

**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Government continues to exercise core functions		Once	Ministry of Finance, State Treasury Service, State Tax Service, Ministry of Justice, Ministry of Social Policy	Based on the information provided by the MoF	MoF
Number of public administration staff paid in non-security sectors		Monthly.	MoF, STS	Based on reports from the treasury and key spending units.	MoF
Number of female civil servants paid on time		Once	NACS	Based on information provided by NACS	MOF
Number of school employees paid on time		Monthly	MoES and STS reports	Based on the Treasury data on payments and MoES data on personnel and payroll	MoF
The number of female school employees paid on time		Once	MoES	Based on data provided by the MoES and shared through MoF reporting	MoF
Number of schools that remain operational		Quarterly	MoES data	Based on reporting of MoES	MoF



Share of pensions paid on time	The indicator will measure the government’s performance in making on-time pension payments (i.e. share of pensions paid within the month when pensions are due).	Monthly	Pension Fund	The data from the monthly Pension Fund reports.	MoF
Share of pensions paid to female pensioners	The indicator measures share of pensions paid on time to female pensioners. At least 85% paid on time within the month pensions are due.	Monthly	Pension Fund reports		MoF

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Central and regional government staff in non-security sectors paid on time		Monthly	The Ministry of Finance of Ukraine, The State Treasury Service of Ukraine	Based on regular Treasury reports and payroll/personnel monthly reports submitted by the Key Spending Agencies to the MoF	MoF
Percentage of Grievances Addressed		Quarterly	MoF/MoES data	Data from GRMs for school employees and government employees.	MoF



Number of schools that remain operational	Number of schools that remain operational	Quarterly	Based on reporting of MoES		MoF
Social payments paid on time	The indicator will measure the government's performance in making on-time eligible social payments (i.e. within the month when payments related to the identified social programs are due).	Monthly	MoSP		MOF
Share of social payments paid on time to female beneficiaries					
Number of health service providers operational under the PMG	Number of health service providers operational under the PMG (baseline 2791 – target 2500 allowing for potential damage to healthcare infrastructure)				
Salaries of SES staff paid on time		Monthly	SES and Treasury data		MoF