

UKRAINE

Resilient, Inclusive and Sustainable Enterprise Project (RISE) (P505616)

PROGRAM FOR RESULTS (PforR)

INTEGRATED FIDUCIARY SYSTEM ASSESSMENT

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ABBREVIATIONS AND ACRONYMS

ACGs	Anti-Corruption Guidelines
ACU	Accounting Chamber of Ukraine
AMCU	Antimonopoly Committee of Ukraine
BDF	Business Development Fund
CMU	Cabinet of Ministers of Ukraine
DLI	Disbursement-Linked Indicator
DLR	Disbursement-Linked Result
EEPO	Enterprise and Export Promotion Office
ECA	Export Credit Agency
EU	European Union
GoU	Government of Ukraine
HACC	High Anti-Corruption Court
IDF	Innovation Development Fund
KPI	Key Performance Indicator
MoE	Ministry of Economy
MOF	Ministry of Finance
MoJ	Ministry of Justice
NABU	National Anti-Corruption Bureau of Ukraine
NACP	National Agency on Corruption Prevention
NES	National Economic Strategy
NGO	Non-Governmental Organization
PAD	Program Appraisal Document
PER	Policy Effectiveness Review
PAP	Program Action Plan
PIU	Program Implementation Unit
PforR	Program-for-Results
POM	Program Operational Manual
PPL	Public Procurement Law
SAPO	Special Anti-Corruption Prosecutors Office
SAS	State Audit Service of Ukraine
STU	State Treasury Service of Ukraine
TOR	Terms of Reference
UAH	Ukrainian Hryvna
VE	Verification Entity
WTO	World Trade Organization

Section 1: Conclusions

1.1. Reasonable assurance

1. Pursuant to World Bank Policy and Directive for Program-for-Results (PforR) Financing (March 2022) and the Program-for-Results Fiduciary Systems Assessment Guidance Note (January 2024), the World Bank's fiduciary team assessed whether the Program's fiduciary systems provide reasonable assurance that financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. Based on the assessment and agreed upon actions to strengthen the system, which are reflected in the Program Action Plan (PAP), and other mitigation measures, the Program's fiduciary systems are considered broadly adequate to meet the requirements in the Bank's PforR Policy and Directive.

2. The assessment was conducted based on desk review of relevant legislative acts, selected procurement transactions including verification of contracts executed, many meetings held with various participating agencies, procurement and FM questionnaires and inputs provided by these entities, as well as other procurement and FM related data analysis, including procurement and contract information available online at ProZorro website.

3. The IFSA examines the Program's overall setup for managing funds and achieving results. It focuses on three key areas: (i) Institutional Framework: this includes assessing the capabilities of organizations involved in the Program, both in terms of governance and managing resources effectively; (ii) Financial Management: this dives deep into the Program's financial practices, from budgeting and accounting to internal controls and reporting; (iii) Procurement and Anti-Corruption: this evaluates how the Program has proper system in place to use funds fairly and transparently, responsibly, avoid fraud, and achieve its goals ensuring compliance with the World Bank's Anti-Corruption Guidelines (ACGs).

4. Implementation of the PforR will rely on and follow the Government of Ukraine (GoU) procurement systems and arrangements established within the Ministry of Economy of Ukraine (MoE) and its subordinated institution Business Development Fund (BDF) as well as other agencies. The IFSA shows that there are no procurement expenditures under the Program that are mandated to follow national Public Procurement Law (PPL) and use ProZorro. The only potential exception is related to potential participations of SOEs and Utility Companies of local administrations that may be selected as beneficiaries of the programs to be financed under the PforR. In this case, the PPL and use of ProZorro will become obligatory and will follow procurement bidding, evaluation, and contract management processes established by the national legislation. This provides reasonable assurance that the Program will achieve the intended results through its procurement processes and procedures. Procurement of equipment, machinery, goods and materials by SMEs under the support SMEs expenditure programs is co-financed by participants and is regulated by an ad hoc resolution of the GoU that establishes the procedure for each calendar year

1.2. Risk assessment

At this stage, the overall integrated fiduciary systems risk (including the risk of fraud and corruption) to the achievement of the PDO is assessed as Substantial.

5. The key Program risks and mitigations actions are:
- a) Inefficiencies in processing procurement activities and potential contracts implementation delays due to the MoE's limited capacity and experience in procurement in accordance with the World Bank's rules and procedures. To mitigate this risk MoE's PIU will be established with well-defined distribution of responsibilities and strengthened by hiring external individual consultants, including the procurement consultant with appropriate experience. The fiduciary staff will be trained in FM, procurement and disbursement through Bank's e-learning modules and workshops. The POM will include detailed procurement timeline.
 - b) There is a risk of low level of competition, since the average number of bids per open tender procedures conducted through national e-Procurement system Prozorro was slightly over 2 in 2023 and 1.8 in 2022. In order to enhance competition, the Ministry of Economy (MoE) as main implementing institution in charge of IPF procurement will try to combine into larger packages planned procurements and ensure wide advertisement of procurement opportunities through its respective website. In addition, business outreach/market sounding events will be organized before launching of planned procurement activities under the Program (security situation allowing). Both procurement and technical staff of the MoE shall be trained to produce high quality tender documents before the start of Program activities and during the Program implementation.
 - c) Multiple Implementing Institutions involved in procurement transactions might not be aware of the lists of debarred and suspended firms declared by the World Bank and other Multilateral Development Banks (MDBs). Most of the contracts planned under the IPF component of the Program are of relatively small size. It is, therefore, unlikely that these contracts would be awarded to firms debarred or under temporary suspension by the World Bank or other MDBs. Budgetary programs which will be financed within the PforR component provide for co-financing of contracts executed by SMEs on the basis of commercial law, thus fraud and corruption risks during contracting process are minimal, however the risk of contracting debarred firms persists. However, to avoid this risk: (i) the MoE issues an official instruction to cause the participating agencies to ensure that no contract will be awarded to a firm or individual which is in the World Bank's debarred list or under temporary suspension; (ii) the updated lists of the debarred and temporarily suspended firms and individuals be shared on regular basis (through a web-page, if feasible, updated concurrently with the World Bank update) with the program implementing agencies; (iii) the TOR for annual audit of the Program request that auditors and/or Accounting Chamber of Ukraine (ACU) check on a random-sampling basis whether any contract has been awarded to ineligible firm or individual; (iv) the regular Progress Reports should contain a confirmations that no such debarred or suspended firms have been contracted under the Program.
 - d) Procurement positions in the institutions involved in Program implementation are subject to staff turnover or are often understaffed. This is aggravated by millions of refugees who left the country and conscription to the army since beginning of the full-scale war in February 2022. In order to ensure timely implementation of planned procurement activities, all vacant positions shall be filled, and staff involved in the execution of the Program secured before the start of activities and during its implementation.

- e) **Potential underfunding of the Program due to large variances between the budget requests and approved budgets on specific budget lines included into the Program.** Financing of the relevant budget programs of the MoE and implementing agencies may be insufficient and may vary from year to year during the period of the Program implementation. However, the MOF and MoE have incentives to allocate sufficient funds as the state budget, as then the budget funds will be replenished by the World Bank in the amount which is connected to each specific DLI upon its achievement. Immediate costs associated with the achievement of each DLI will be less than the value of respective DLI, and the remaining amount will continue supporting the respective budget programs. Sufficiency of budget allocation will be monitored through the review of annual Program financial statements and analysis of actual and planned expenditures. Successful implementation of the DLIs will also provide indirect evidence of the sufficiency of budget funding.
- f) **Lack of fiduciary capacity at the MoE and potential inadequate financial monitoring of the Program implementation as a whole.** The government does not automatically produce specific consolidated Program financial statements, and the MoE does not have experienced staff to monitor the program implementation, collect information and submit Project financial reporting. At the same time, throughout the Program implementation MOE will be required to prepare such annual Program reports which will provide annual planned and actual amounts on the implementation of budget programs associated with the Program, manually consolidating data that will be received from the respective agencies. The form and content of reports will be developed and agreed with the Bank before start of the Project implementation and will be included in the Program Operational Manual (POM) for ease of coordination and consolidation. To mitigate the risk MoE will have to establish the PIU and staff it with appropriate number of qualified employees having sufficient knowledge and ability to carry out the above tasks. World Bank will also organize a training workshop to counterparts on the format and content of program reports.
- g) **Potential delay of carrying out of the Project financial audit by the ACU or private auditors.** The ACU carries out financial audits of budget programs as per the annual plan, which is formed using a risk-based approach. Therefore, the Program may not be subject to financial audits during the years of Project implementation in case it is not included into the ACU's annual auditing plan. To mitigate this risk, the team conducted negotiations with the ACU to suggest that the Program is included in the auditing plan on an annual basis and respective audits are delivered within 9 months of each financial years. In case of inability of ACU to carry out respective audits in all or some of the years, a acceptable private audit firm will be contracted to carry out Project audits on an annual basis.

1.3. Procurement exclusions

6. Given the nature of the Program, it is not envisaged that it will finance any contract for works, goods and/or consulting services above the Bank's Operational Procurement Review Committee (OPRC) thresholds¹. Currently there is rather limited scope of procurable items in the Program and the highest

¹ OPRC thresholds for substantial risk projects are US\$75 million for works, US\$50 million for goods, information technology and non-consulting services, and US\$20 million for firm consultants.

estimated value of single procurement package planned is set at the equivalent of US\$3.3 million² per contract for smart infrastructure solutions. However, should such OPRC level contracts be concluded, they would be excluded from the Program.

Section 2. Scope

2.1. Scope of Fiduciary System Assessment

7. The scope of the Fiduciary System Assessment is based on the defined boundary and Program Expenditure Framework included in the PforR (captured principally in various budget codes associated with the Program). The fiduciary team assessed the fiduciary systems of the Ministry of Economy (MoE) for financial management and procurement arrangements. Given that the Program expenditure lines are implemented by MoE as well as subordinated institutions.

2.2. The Government's Expenditure Program.

8. The GoU National Economic Strategy (NES) 2021-2030 and the Ukraine Plan 2024 – 2027 form a robust strategic framework to advance key private sector reforms and directly support the recovery of Ukrainian firms. The NES 2021-2030 sets the overall economic strategy for Ukraine and anchors it on the unfinished pre-war economic reform agenda while setting clear directives for a private sector led recovery in the post-invasion context. The Ukraine Plan 2024-2027³ outlines the country's vision for medium-term socio-economic growth and aims to accelerate Ukraine's EU accession path, with targeted reforms across key sectors to promote growth and attract priority investments while aligning with EU standards. The Ukraine Plan is co-financed by a dedicated EU support mechanism providing up to €50 billion for Ukraine's recovery, reconstruction, and modernization efforts from 2024 to 2027. The Plan addresses the devastating impact of the war on Ukraine's productive capacity and economic activity, focusing on reconstruction, recovery, and modernization, alongside macroeconomic impacts. Priority reforms and objectives include i) improving the regulatory environment through simplification and digitalization of G2B services, ii) increasing access to finance and export markets through the implementation of revamped firm support programs for SMEs, iii) increasing the share of SMEs in the economy, iv) harmonizing business legislation, regulations, and standards with the EU, v) promoting industrial parks, and incentivizing and simplifying administrative procedures for utility networks infrastructure connections for larger investments. Adoption of the draft SME Strategy in 2024 is aimed at further addressing medium and long-term priorities for the development of SMEs and improving the business environment and access to financing for SMEs.

9. The NES 2021-2030⁴ and Ukraine Plan 2024-2027⁵ complement an ambitious reform plan with a sizable investment and financing program to support firms, SMEs in particular, through the war and prepare them for the recovery. The combined reform and investment program of the GoU addresses market and government failures that currently constrain SME productivity growth, posing a significant opportunity to enable private sector led recovery. Identified market failures include high uncertainty and interest rate environment as well as information asymmetry that limit private lending in the current context. Government failures include suboptimal provision of public goods and coordination failures that

2 UAH 131,421,679.00 as per the MoE Order #693 dated May 16, 2024

³ <https://www.ukrainefacility.me.gov.ua/en/>

⁴ The National Economic Strategy (NES) (2021-2030) <https://zakon.rada.gov.ua/laws/show/179-2021-%D0%BF#Text>

⁵ <https://www.ukrainefacility.me.gov.ua/wp-content/uploads/2024/03/ukraine-facility-plan.pdf>

affect the business environment and the effectiveness of government efforts to counteract the effects of war.

10. The NES and Ukraine Plan are appropriate to be supported by a PforR, with projected investments into private sector support programs and related reforms for 2024-2027 reaching US\$2.74 billion. Enterprise support programs form an important pillar of the reforms and investments covered under the Ukraine Plan aimed at strengthening the business environment. Key objectives are to create effective and transparent state programs for enterprises and ensure the efficient functioning of the existing state infrastructure in support of SMEs.

11. The proposed PforR is complementary to a wide range of other private sector support provided by the World Bank Group (WBG) and other development partners in Ukraine and is aimed at fostering economic growth and modernization of the economy and institutions and promote strengthening of public sector capacity, in alignment with the standards and policies of the EU. The implementation of the operation is supported by a number of development partners through the provision of funding in the form of guarantees and grants. In addition, implementation will be closely coordinated internally with IFC, and development partners such as EU, IMF, EIB, USAID, EBRD and other bilateral donors that provide technical assistance to the Government of Ukraine in the areas of private sector reform. Credit lines and risk-sharing facilities supporting SMEs and private companies more broadly in the country are provided by the WBG through IFC, and by EBRD, and EIB.

12. The Program's PDO is to improve the enabling environment for a sustainable private sector-led recovery in Ukraine. The theory of change addresses critical challenges to private sector resilience, growth and sustainability, including regulatory burden, lack of finance and insufficient market access, through the Program's three complementary results area: (1) Improving efficiency of state support to SMEs, with a focus on green competitiveness; (2) Improving the Business Environment and G2B Digital Services; and (3) Enabling SMEs access to export markets. It adequately combines and articulates the GoU's efforts to, first, implement its business environment reform agenda (e.g., regulatory simplification, digital G2B services, standards alignment with the EU) and, second, provide more efficient support to businesses by strengthening the institutional capacity of key agencies (e.g., EEPO, Innovation Development Fund, Business Development Fund, UkraineInvest) involved in implementation of the programs included in the PforR's expenditure framework.

13. The PforR expenditure program for the GoU's private sector reform agenda for 2024-2027 is approximately US\$2.74 billion. The main subventions are dedicated to funding several firm support programs through diverse modalities— including soft loans and grants - which form the underlying expenditures of results area 1 focusing on improving the efficiency and ESG compliance of these programs. In addition, MoE salaries are included as an eligible expenditure in support of key interventions in the ecosystem related to improving the business environment and enabling SMEs access to export markets such as strengthening the strategic frameworks for investment facilitation and export credit, deregulation and digitization as well as EU harmonization of product standards (results areas 2 and 3). Moreover, the EEPO budget program is dedicated to advisory services and technical assistance programs which have increasingly been provided online to complement those provided in physical locations (results area 3). In the case of MoE salaries, PEACE will finance the salaries in 2024 while the PforR will cover them in 2025, 2026 and 2027. Table 1 presents the key budget programs and the amounts allocated for 2024-2027.

Table1: Scope of Government program

Budget program	Activity name	Implementing agency	Share of budgeted Program in 2024	US\$ million[1]	Budget					R A
					2024		UAH million			
					2024	2024	2025 (est.)	2026 (est.)	2027 (est.)	
1201450 - Financing of Business Development Fund	Affordable Loans 5-7-9%	MoE / Business Development Fund	34%	220.0	9,000[2]	18,000	18,000	18,000	18,000	1
1201360 - State support of projects with significant private investments	Investment Nanny	MoE	11%	73.3	3,000	TBD [3]	TBD	TBD	TBD	1
1201430 - Supporting internal demand for national products and services	Made in Ukraine cashback program	MoE / Ministry of Digital Transformation	11%	73.3	3,000	TBD	TBD	TBD	TBD	1
2901060 – Support of Innovation Development Fund [4]	Innovation Development Fund	Ministry of Digital Transformation / Innovation Development Fund	0%	0	0	TBD	TBD	TBD	TBD	1
411240 – Support of the Export Promotion Office	Entrepreneurship and Export Promotion Office (EEPO)	Economics and Financial Department of the Secretariat of the Cabinet of Ministers of Ukraine / EEPO	0%	0.9	37	37	37	37	37	3

1201310 - Partial compensation of the value of agricultural equipment produced in Ukraine	Agricultural machinery and equipment grants	MoE	4%	24.4	1,000	TBD	TBD	TBD	1
1201340 - State support for the creation of industrial parks	Incentives for Industrial Park	MoE	4%	24.4	1,000	TBD	TBD	TBD	1
1201350 – State grants for the creation or development of new businesses[5]	eRobota	MoE / State Employment Center	3%	21.8	890.5	890.5	890.5	890.5	1
1201010 - Leadership and Management in the Sphere of Economics [6]	Salaries	MoE	0	0	0	570.5	570.5	570.5	1, 2 and 3
Total			100%	438.3	17,928	19,498	19,498	19,498	
Overall expenditure program (UAH million)								76,421	
Overall expenditure program (USD million)								1,756.8 ^[7]	
<p>[1] Exchange rate used: UAH 40.9 per US\$ in 2024 and UAH 43.5 per US\$ in outer years and totals.</p> <p>[2] 50 percent of budget allocation financed by ARISE in 2024 (agribusinesses).</p> <p>[3] Some programs have not been allocated budget yet for years 2025-2027. These amounts will be added to the expenditures program when budgeted.</p> <p>[4] Excluded in 2024 as a result of the FSA/ESSA findings.</p>									

[5] This budget lines also include smaller funding windows to support investment in horticulture and the construction of greenhouses, which are managed with the Ministry of Agrarian Policy and Food, but these are excluded from the Program's expenditure framework.

[6] MoE salaries excluded in 2024 as covered by PEACE expenditures. As of 2025, these expenditures are no longer covered by PEACE, and will be covered by RISE.

[7] In addition, off-budget, USD 1 bn (UAH 43,500 bn) of commercial financing (volumes of loans provided under redesigned 579 program) is expected to be mobilized.

14. The PforR will be implemented over three years at an estimated total cost of US\$2.74 billion. The total IBRD financing will be US\$1 billion. The first phase of the Operation is planned for US\$550 million and US\$10 million financed by the URTF that support the IPF. This leaves a financing gap of US\$450 million for PforR and US\$20 million for the IPF needed to fully accomplish the operation's objective. Due to financing source constraints, the current IBRD financing amount of US\$ 250 million will need to be disbursed during the 2024 calendar year. Withdrawal of up to 25 percent of the financing amount will be made against prior results achieved between the date of the program concept review and the date of the Legal Agreement. Further withdrawals will be made against DLIs achieved after date of the Legal Agreement. However, there may be a need to provide an advance towards expenditures related to DLIs that will be achieved after December 31, 2024. The support for reform implementation in 2025 and 2026 of US\$450 million (financing gap of the PforR) is expected to be funded through future donor contributions in the form of guarantees and grants.

Table 2: Program Financing

Source	Amount (US\$, Millions)	% of Total Program Cost
Program Cost	2,744.80	98.9
Program Financing	2,294.8⁶	82.7
International Development Association (IDA) Credit	300	10.8
International Bank for Reconstruction and Development (IBRD)	250	9.0
Counterpart Funding	744.8	26.8
Commercial Financing	1,000	36.0
Program Financing Gap	450	16.2

⁶ Includes USD 1 bn of commercial financing and excludes unconfirmed capital expenditures.

IPF Cost	30	1.1
IPF Financing	10	0.4
Ukraine Relief, Recovery, Reconstruction, and Reform TF	10	0.4
IPF Financing Gap	20	0.7
Total Operation Financing (PforR + IPF)	2,304.8	83.1
Total Operation Financing Gap	470	16.9
Total Operation (including Financing Gap)	2,774.8	100

2.3. Implementation Arrangements

14. The PforR program would use a two-tiered structure each led by the Ministry of Finance (MoF) and the Ministry of Economy (MoE). In line with the National Legislation⁷, MoF will manage overall Program coordination as the coordinating agency, collaborating closely with the MoE, which will act as the executing agency for policy implementation in the enterprise sector. The Program will support the implementation of selected reforms and investments, under the NES and Ukraine Plan, led by the MoE and other agencies aiming to improve conditions for private sector growth and provide support to firms.

15. As the coordinating agency, the MoF will conduct Program supervision and coordination with the Bank. The MoF will be responsible for i) overall supervision including the facilitation of strategic decision-making and monitoring the Program's execution and results, ii) ensuring that the executing agency (the MoE) has the necessary resources to achieve the Program's results, which will be prepared and approved following the budget procedures for ministries in the GoU and iii) coordinating disbursements with the Bank after the achievement of DLIs and Disbursement-Linked Results (DLR), as established in the legal agreement.

16. As the executing agency, the MoE will be responsible for the Program execution, including the achievement and reporting of DLIs. The MoE will manage project, fiduciary, environmental and social aspects of the government expenditure program, including subventions and other budget lines within the eligible expenditure plan. Key processes include: (i) maintaining suitable fiduciary procedures and regulations for the PforR financing, as agreed with the Bank; (ii) facilitating the Program flow of funds from the budget through existing channels (including local governments) to beneficiaries; (iii) verifying results according to verification protocols; (iv) arranging internal and external audits and (v) acting as the contact representative with the Bank on Program implementation. The responsible Deputy Minister of Economy, with support of the PIU working under the IPF component will be responsible for coordination and monitoring of DLIs and DLRs, until they are achieved and reported.

⁷ Resolution of the Cabinet of Ministers "On the Procedure for Preparation, Implementation, Monitoring, and Completion of Economic and Social Development Projects Supported by International Financial Organizations" No. 70 dated January 27, 2016, with amendments.

2.4 Government Procedures for Program Implementation

17. By the Program design, the transfer of funds from the MoF to the MoE and implementing entities will take place in accordance with the regular (budget) financing procedures. The Implementing Institution is to prepare and submit to the MoF and the World Bank the set of activities and the tentative budget allocation requirement under relevant budget programs for the Program implementation.

18. Different budget programs are implemented following their specific arrangements by MoE, IDF or EEPO. Details of the budget programs implementation are provided in Table 3 below.

Table 3. Budget Programs implementation arrangements

#	Budget Program #	Program short title	Implementing agency	Implementation in 2023 and prior Y/N
1	1201450	BDF	Ministry of Economy since 2024, prior - MoF	No
2	1201340	Industrial Parks	Ministry of Economy	No
3	1201360	Investment Nannies	Ministry of Economy	Yes, since 2023
4	0411240	Export promotion institution	COM/Enterprise and Export Promotion Office	Yes, since 2018
5	2901060	Innovation Development Fund	Ministry of Digital Transformation/IDF	Yes, since 2023
6	1201350	E-Robota	Ministry of Economy	Yes, since 2022
7	1201430	Cashback	Ministry of Economy	No
8	1201310	Agritechnik	Ministry of Economy	Yes, since 2017
9	1201010	MoE salaries	Ministry of Economy	Yes

19. The POM will be prepared for the Program, which will include the Program objectives and targets to be achieved, detailed description, detailed implementation schedules, budget allocation requirements for the Program period, detailed procedures for transfer of the budget funds to the MoE and

implementing agencies, and periodic auditing and reporting arrangements. It was agreed that the POM will be prepared one month after Effectiveness. It was also agreed that upon finalization the respective parts of the POM will be approved by the Implementing Institutions and the MoF will provide the overall approval of the POM.

2.5. Disbursement of Program Funds

20. The budget will be managed to allow for proper budget appropriation and availability to MoE and implementing agencies. Budget lines will cover an amount equal to or higher than the amount of Bank-financed resources assigned to cover the DLIs/DLRs for each year.

21. PforR disbursements will be made on the achievement of results that are specified by the operation’s DLIs. Disbursements related to the achievement of the DLIs will be made to a State Treasury account indicated by the Government. To achieve the Program’s results, the government will undertake activities and actions identified in the Program Expenditure Framework. The task team works with the counterparts to agree upon appropriate arrangements to ensure that a credible mechanism is in place for monitoring, measuring, and verifying the achievement of the DLIs.

22. Disbursement projections are based on the completion of the DLRs, some of which will be prior results. The Bank can disburse against DLRs achieved between the date of the Program concept review (April 30, 2024) and the date of signing the legal agreement.

23. The verification of each DLR will be carried out according to its nature and complexity. DLRs 1.1, 1.2 (ii), 1.3, 2.2, 2.3, 3.1, 3.2, 3.4, 4.1, 4.3, 4.4, which involve data collection and field visits, will be verified by an Independent Verification Agency (IVA) according to the verification protocols. DLRs 1.2 (i), 2.1, 3.3, 4.2 which are supported by official documents, will be verified by national institutions and validated by the World Bank following the verification protocols.

24. The verification of the existence of clear eligibility criteria for each of the firm support programs will be done through the Policy Effectiveness Review (PER) throughout program implementation. It is embedded in DLR 1.2, including their progressive improvement over time. Additionally, the scope of the Program external audit will include sample testing of controls over a selected number of final beneficiaries.

Table 4: Overview of DLIs and DLRs

DLIs	DLRs	Allocation (US\$ million)
Results Area 1. Improving efficiency of state support to SMEs, with a focus on green competitiveness		
DLI 1. Improving efficiency of state support to SMEs, with focus on green competitiveness	DLR 1.1: USD 200 mln loans issued under the redesigned 5-7-9 credit program (40 mln of in which are loans to female headed firms) (scalable) <i>Expected completion date November 30, 2024</i>	100

	<p>DLR 1.2: (i) improved average PER score of the redesigned firm support programs⁸, and (ii) 20,000 beneficiaries received financing and/or services from redesigned firm support programs⁹ (scalable)¹⁰ <i>Expected completion date: November 30, 2026</i></p> <p>DLR 1.3: 40,000 jobs created or preserved by firms participating in redesigned firm support programs, of which 40% for women (scalable) <i>Expected completion date: November 30, 2026</i></p>	<p>0 (allocation 50% of amount per sub DLR)</p> <p>0</p>
<p>DLI 2. Enhanced compliance of SME financing programs with ESG requirements</p>	<p>DLR 2.1: BDF’s Supervisory Board adopted its Environmental and Social Policy establishing principles and commitments of the BDF and PFIs towards sustainable and responsible investment practices in alignment with environmental, social, and occupational and community health & safety requirements. <i>Expected completion date: November 30, 2024</i></p>	<p>45</p>
	<p>DLR 2.2: At least 20 banks accounting for 90 percent of the overall 5-7-9 lending volume adopted Environmental and Social Management System (scalable) <i>Expected completion date: November 30, 2025</i></p>	<p>100</p>
	<p>DLR 2.3: 30% increase of SMEs financed under the 5-7-9 program in compliance with ESG requirements (scalable) <i>Expected completion date: November 30, 2026</i></p>	<p>0</p>
<p>Results Area 2. Improving the Business Environment and G2B Digital Services</p>		
<p>DLI 3. Simplified business regulation, including investment facilitation framework for the green economy</p>	<p>DLR 3.1: Diia Business Portal 2.0 launched (accessible online to users) with functionalities in compliance with the TORs of the EEPO <i>Expected completion date: November 30, 2024</i></p>	<p>30</p>

⁸ Detailed content, requirements, and methodology of the PER are specified in the verification protocol for DLR 1.2. The PER assesses the performance of SME support programs along the following functional dimension: Program Design, Implementation Mechanisms, Effective Resource and Management Quality, Monitoring and Evaluation, Systems Governance and Coordination among Programs, Continuous Learning and Programs Recalibration.

⁹ Increased outreach of redesigned firm support programs is a key outcome of the proposed PforR as highlighted under point b) of paragraph 30 under Results Area 1. Only 8 percent of firms participated in support programs, with a lower rate of 6 percent among SMEs, as described in paragraph 6 of the Sectoral and Institutional Context Section.

¹⁰ Achievement of (i) and (ii) each qualifies for 50% of the allocated amount.

	<p>DLR 3.2: (i) 500,000 unique visits of the Diia Business Portal 2.0, and (ii) 90,000 registered accounts (scalable)</p> <p><i>Expected completion date: November 30, 2025</i></p>	100 (allocation 50% of amount per sub DLR)
	<p>DLR 3.3: FDI Strategy adopted by the Cabinet of Ministers, including (i) focus on the green economy, and (ii) plans to modernize the Investment Policy and Promotion framework, including capacity building of the IPA agency.¹¹</p> <p><i>Expected completion date: November 30, 2025</i></p>	10
	<p>DLR 3.4: 200,000 applications submitted via the e-permit system.¹² (scalable)</p> <p><i>Expected completion date: November 30, 2026</i></p>	0
Results Area 3. Enabling SMEs access to export markets		
DLI 4. Enabled SMEs access to export markets	<p>DLR 4.1: 3,000 SMEs received business consulting services¹³ (online or face-to-face) from EEPO (scalable)</p> <p><i>Expected completion date: November 30, 2024</i></p>	70
	<p>DLR 4.2: New ECA strategy adopted providing for broadening of ECA's product offering (including war risk insurance), integrating environmental sustainability into ECA's policies and products as well as for development of a robust M&E framework.</p> <p><i>Completion date: June 26, 2024</i></p>	5
	<p>DLR 4.3: 10 export-oriented projects of SMEs covered by ECA including for war risk in line with new ECA strategy (scalable)</p> <p><i>Expected completion date: November 30, 2025</i></p>	90
	<p>DLR 4.4: Representatives of 500 firms completed capacity building programs on the EU harmonized product standards,¹⁴ including sustainability standards (scalable)</p> <p><i>Expected completion date: November 30, 2026</i></p>	0

¹¹ Detailed content and requirements of the FDI Strategy are specified in the verification protocol for DLR 3.3.

¹² Benefits for firms usually associated with the use of e-permit systems relate to reduction of administrative compliance burden (time, cost, and resource savings), and increased transparency of G2B interactions and procedures.

¹³ A non-exhaustive list of business consulting services provided by the EEPO to firms include: business intelligence on export markets, advisory on partnership agreements and export contracts with foreign buyers, advisory on trade facilitation and customs procedures, participation to international trade fairs, business mentoring on customized firm-level export plans, training on sustainable business practices, self-assessment tools on compliance with ESG requirements, energy efficiency advisory.

¹⁴ Capacity building will have an indicative focus on sectors covered by the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) with the EU, such as mechanical and electrical equipment, electromagnetic compatible equipment, low-voltage electrical equipment.

	TOTAL	550 (250 in 2024 and 300 in 2025, 450 unfunded)
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2.6. Fiduciary Capacity of implementing institutions

25. It was confirmed that the MoF has sufficient capacity, including qualified staff, to carry out its functions as the Project coordinating agency. The key staff of the International Financial Projects Department actively participated in the Program preparation and will be in charge of the MoF fiduciary responsibilities during Program implementation. Given that there is no automated system that would allow for preparation of such consolidated Program report, such consolidated report will be manually prepared by the MoE based on the individual reports received from the MoE units and other implementing agencies, in formats to be outlined in the POM and then submitted to the MoF. The MoE was confirmed to have the necessary capacity to prepare such reports based on inputs received from implementing agencies.

26. The MoE will be the primary responsible for Program execution. Its PIU will work with other MoE units and other implementing agencies on monitoring of agreed actions, reporting and verification. In terms of fiduciary responsibilities, the MoE will be responsible for the following:

- Developing a Project POM, including details on Fiduciary responsibilities of the MoF and the MoE, as well as other implementing agencies;
- Ensuring that the MoE and implementing agencies are provided with sufficient resources for achievement of DLIs, via the regular budgeting process. The MoE will receive and analyze detailed calculations and cost estimates related to respective activities under the Program which will serve as a basis to determine appropriate budget allocation;
- Preparation and submission of Withdrawal applications to the World Bank, subject to approval of the MoF, upon achievement of DLIs;
- Preparation of the annual consolidated Program report on the basis of annual reports submitted by the implementing agencies;
- Coordination of the procedure of the annual audit of the Program as well as submission of annual Program audit report to the World Bank.

27. The PforR Program will be implemented largely using existing Public Financial Management systems of the MoE at the central level. The PforR Program mostly includes existing budget lines included in the state budget and managed by the MoE and implementing agencies. The budget allocation mechanisms have been in place for several years and have largely demonstrated their success in channeling funding, as well as reliability of accounting and reporting on the use of those funds. The Financing of Business Development Fund program, which constitutes about 70 percent of the total Program Expenditure Framework has a particularly strong track record, and respective processes and procedures for its implementation were reviewed during implementation of the ongoing ARISE Project (TF0C2986). Detailed information on the past performance of the budget lines, included into the Program, is presented in Table 5.

Table 5. Implementation of budget lines, Included into the Program, in 2021-2023

Budget line #	Short title	Average use of allocated funds in 2021-2023, %	Accounting systems used	Financial reporting requirements	Issues identified in accounting and financial reporting systems	Remarks
1201450	BDF	no	ISPRO	Quarterly and annually to MoE	None	New to MOE program, no procedure approved, the assessment was carried out based on other program implemented by BDF under MOF (with similar implementation arrangements)
1201340	Industrial Parks	n/a	ISPRO	Quarterly and annually	n/a	New program. Risks - no clear mechanism of the program implementation approved, no prior experience, multiple stakeholders
1201360	Investment Nannies	0%	ISPRO	Use of funds - monthly, financial reports - quarterly and annual	n/a	Program is implemented since 2023, however no contracts concluded since the program inception, signatory is at the COM, lack of capacity at the responsible unit and cumbersome procedures are identified as key risks
411240	Export promotion institution	100%	Master Buhgalteria	Use of finds - monthly, financial reports - quarterly and annually to the COM	None	The program is funding EPO activities aimed at export promotion; internal control available, external audit carried out in 2020
2901060	Innovation Development Fund	100%	ISPRO	Use of funds - monthly, financial reports - quarterly and annually to the Ministrty of Digital Transformation.	None	Program is funded through replenishment of IFD statutory capital and then issuing grants to eligible recipients. In 2024, the program funds military-oriented projects (Brave-One program)
1201350	E-Robota	100%	ISPRO	Financial reports - quarterly and	None	Program functions well and is implemented mostly through the

Budget line #	Short title	Average use of allocated funds in 2021-2023, %	Accounting systems used	Financial reporting requirements	Issues identified in accounting and financial reporting systems	Remarks
				annually to the MOF		Oschadbank, mechanism is transparent and functional, internal controls are at Oschadbank, financial reporting from MoE to MoF once a year; reporting by Oschadbank to MoE - monthly; external audit by ACU in 2022
1201430	Cashback	n/a	ISPRO	Use of funds - monthly, financial reports - quarterly and annually to the MOF	n/a	New program, no procedure (draft available). To be implemented through the "Made in Ukraine" Fund on a similar basis as BDF
1201310	Agritechnik	n/a	ISPRO	Use of funds - monthly, financial reports - quarterly and annually to the MOF	n/a	Program was not implemented in 2022-2023, insufficient budget funds allocation (30% of projected) , organized as a cashback mechanism through the authorized banks
1201010	MoE salaries	100%	ISPRO	monthly, quarterly and yearly reporting to MOF, State Treasury and ACU	None	Budget program include other expenditures except for salaries, however salaries can be extracted. Internal and external audit was not carried out in the recent years. Uneven allocation of funds throughout the year (insufficient allocation at the beginning of the year and excessive allocation closer to the end of the year)

28. Fiduciary assessment confirmed that the MoE (conditioned that relevant experts are hired to the PIU), and agencies involved in the Program implementation, have capacity for execution of the budget codes captured in the Program, including their budgeting, execution, monitoring and reporting, as summarized in more detail below. The key fiduciary risks and fiduciary action plan are captured in the respective sections of this assessment.

29. The Business Development Fund (BDF) is involved in implementation of budget program 1201450, implemented by the MoE, and is responsible for the program execution, budgeting, monitoring, and reporting. The fiduciary review of the Fund's capacity confirmed that the Fund has sufficient staff and financial management, procurement and contract management, internal control, and reporting systems

in place to implement the budget code in line with the Program requirements. The Fund was established in 1998 as a second-tier financial institution, and since then it closely worked with government and international donor organizations, implementing programs aimed at supporting of business development. The first PforR operation in Ukrainian portfolio, ARISE Project, was also implemented with involvement of BDF, and no issues were identified on the BDF side during the Project implementation. The procurement, accounting, budget planning and reporting under the budget line is done according to the national legislation with procurement, accounting department and financial department involvement. Expenditures are carried out based on the monthly funds allocation through the State Treasury Service of Ukraine (STU). Monthly reports on the use of funds are submitted to the MoE and the STU. Internal control measures are implemented by BDF and are confirmed to be sufficient as per the recent audit report for 2022 carried out by KPMG.

30. Entrepreneurship and Export Promotion Office (EEPO), subordinated to the Cabinet of Ministers of Ukraine, is responsible for implementation of budget program 0411240. EEPO is responsible for the program execution, budgeting, monitoring, and reporting. The fiduciary review of the EEPO's capacity confirmed that the Office has sufficient staff and financial management, procurement and contract management, internal control, and reporting systems in place to implement the budget code in line with the Program requirements. The Office was established in 2015 and is staffed with 34 employees. The procurement, accounting, budget planning and reporting under the budget line is done according to the national legislation with accounting and financial departments involvement. Expenditures are carried out based on the monthly funds allocation through the State Treasury Service of Ukraine (STU). Monthly reports on the use of funds are submitted to the Cabinet of Minister of Ukraine, responsible for the budget line implementation. Internal control measures are implemented by EEPO are verified during the external audit, which is carried out once in three years by the Cabinet of Ministers of Ukraine. In 2020 the external audit was conducted by the BDO private audit firm. The auditors confirmed compliance of EEPO's financial reporting with national accounting standards in all key aspects and did not identify significant weaknesses in the internal control procedures.

31. Innovation Development Fund (IDF), subordinated to the Ministry of Digital Transformation, is involved in implementation of budget program # 2901060, aimed at support of national start-ups. The Fund is responsible for the Program execution, budgeting, monitoring, and reporting. The fiduciary review of the Funds's capacity confirmed that the Fund has sufficient staff and financial management, procurement and contract management, internal control, and reporting systems in place to implement the budget line in line with the Program requirements. The Fund was established in 2018 and during recent 6 years have gained an experience of implementing projects funded by international donor organizations, including USAID, GIZ, EU and others, and having provided grants for more than USD16 mln. The procurement, accounting, budget planning and reporting under the budget line is done according to the national legislation by finance and accounting department. Expenditures are carried out in the form of replenishment of IDF statutory capital and then issuing grants to eligible recipients. Reports on the use of funds are submitted to the Ministry of Digital Transformation on monthly, quarterly, and annual basis. Internal audit is carried out by the Ministry of Digital Transformation. External audit is carried out on a yearly basis by the private audit firm appointed by the Ministry of Digital Transformation. For years 2020-2022 auditors issued unqualified (clean) audit reports and confirmed no significant weaknesses in the IDF internal control systems.

32. Individual differences in procedures of implementing agencies were identified, including type of the accounting software used, internal control procedures, and units involved in the budget lines implementation. However, these procedures are overall similar in all entities and are based on

requirements of the budget legislation in terms of budget funds allocation, use, monitoring and reporting. Expenditures are carried out based on the monthly funds' allocation through the STU. Monthly reports on the use of funds are submitted to the STU. Internal audit procedures are carried out either by internal audit division (if available) or other units entitled with internal control function. Periodic external audit is carried out by the SAS and the ACU, or private auditor. The coverage of both internal audit review and external audit varies and none are carried on a regular basis. Existing external audit arrangements were assessed as insufficient in their frequency and scope, and therefore special audit arrangements for this Project were agreed with the GoU.

Section 3: Review of Public Financial Management Cycle

3.1 Planning and Budgeting

3.1.1 Adequacy of budgets

33. Budget preparation: Fiduciary assessment confirmed that the MoE and other institutions follow the budget cycle in accordance with the relevant regulations, which is outlined in Table 6 below.

34. Several budget lines, which form part of the Program, including Support of Export Promotion Office, E-Robota, Innovation Development Fund were under-financed in 2024 and prior years. Other noted issues are absence of the approved procedures for 2024 for most of the programs as of June 2024 (refer to the Table 5 above), and complexity of approval and implementation mechanisms on some programs where approved procedures are already available (Investment nannies, agritech).

35. It was confirmed with the MoE as well as the MoF that the Program budget is prepared with due regard to government policy and implemented in an orderly and predictable manner. There is a reasonable expectation that the required budget allocations will be made in 2024 and subsequent financial years. A strong budget classification system is in place which permits all transactions to be tracked throughout the budget formation, execution and reporting of the budgets. Classification is done according to administrative unit, economic category, function/sub-function or a program. This strong system in place at all participating agencies and at all levels allows easy tracking of respective information related to the expenditure lines included in the Program.

36. A clear annual budget calendar exists, and it is largely adhered by the budget spending units. Under the budget code, expenditure ceilings are set by the MoF. The MoF then communicates these ceilings to key spending units, receives budget requests from them, and then drafts a budget. After budget indicators are agreed between the MoF and the spending units, the MoF then finalizes the budget and submits it to the Cabinet of Ministers of Ukraine (CMU) for Approval. Further adjustments to the budget can then be only made after approval of the CMU.

37. Following the approval of the State Budget, the MoF approves budget apportionment by month based on the inputs from budget holders. Based on these monthly apportionments, the spending units prepare breakdown by program and economic classification, which is then forwarded to the MoF. Subsequently, the STU controls budget expenditures according to such plans and apportionments.

38. Implementing Institution and agencies demonstrate a track record of successful budget execution with no significant shortcomings, based on a review of recent years' budget outturn reports on budget lines included in the Program (detailed information is provided in Table 5 above).

Table 6. Key steps of the State Budget process

Stage 1: State Budget Preparation	
Implementing agencies submit budget requests under each program to the MoF	Within a term defined by the MoF (usually June – July of preceding calendar year)
COM approves a draft State Budget and submits it to the Parliament	September 15
Stage 2: Approval of the State Budget	
Parliament approves the state budget	December 1
President signs the Law on the State Budget	Within 15 days after the law is passed by the Parliament
Stage 3: State Budget execution	
COM approves the procedures for use of the state budget funds	Within 30 days after enactment of the Law on the State Budget
MoF approves the passports of the budget programs	Within 45 days after enactment of the Law on the State budget Funds become available to implementing agencies as per monthly funds distribution ¹⁵

39. In 2024, the process of renewing medium-term budget planning will be launched. During the preparation of the Budget Declaration for 2025-2027 and the draft State Budget of Ukraine for 2025, it is planned to use a new modern IT system for planning and monitoring the implementation of the state budget, which was developed by the Ministry of Finance with the engagement of international partners. The new IT system for interaction with budget holders will become a single digital tool for communication with the Ministry of Finance in the budget process, which will ensure the exchange of legally significant documents that will be properly stored, verified, and consolidated.

3.1.1. Procurement Planning

40. There are no procurement expenditures under the PforR that are mandated to follow national Public Procurement Law (PPL) and use Prozorro. The only potential exception is related to potential participations of state-owned enterprises and Utility Companies of local administrations that may be selected as beneficiaries of the programs to be financed under the PforR. In this case, the PPL and use of national e-procurement platform Prozorro will become obligatory and will follow procurement bidding, evaluation, and contract management processes established by the national legislation. For such procurement activities public procurement legislation mandates publication of relevant procurement information through Prozorro within established time, which allows access to all interested parties. This provides reasonable assurance that the Program will achieve the intended results through its procurement processes and procedures. Procurement of equipment, machinery, goods and materials, etc. by SMEs under the support SMEs expenditure programs is co-financed by participants and is regulated by an ad hoc resolution of the GoU that establishes the procedure for each calendar year. Co-financing within government programs is provided to SMEs on the basis of investment contracts subject to fulfilment of financing conditions by SMEs and clearly stating SME’s responsibility for the nonfulfillment thereof.

¹⁵ Usually, funds become available to the implementing agencies at the end of February – beginning of March, at the earliest.

41. Procurement under the IPF component will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers dated September 2023. The national e-procurement Prozorro system will be used for procurement of goods and non-consulting services. The Prozorro system has been assessed by the World Bank and found acceptable for procurement of goods, works, and non-consulting services within for World Bank-financed projects.

42. The PforR financing will be allocated mainly for providing incentives to SMEs within their business activities, thus procurement planning will not be applicable thereto. Procurement planning within the IPF component will be made by the MoE following WB Procurement Regulations. The procurement under the IPF component envisages financing of the technical assistance to the MoE and project management strengthening, and mainly be for consulting services, goods and non-consulting services. No PforR procurement is envisaged, however, the Program would cover support for PforR programs, such as Industrial Parks and EEPO, that will be financed within IPF component and procured by MoE.

43. Initial funding envelope of IPF component includes a US\$ 10 million URTF Grant. Financing gap of US\$ 20 million is expected to be funded through future donor contributions during 2025-2026.

44. Within initial US\$ 10 million envelope the MoE plans to procure services for US\$ 0.6 million under Operation support component; training, workshops, seminars for SMEs, capacity-building for BDF, EEPO, technical assistance to the Center of Excellence for Industrial Parks, etc. for US\$ 4.25 million under the Targeted technical assistance and capacity building component; hardware and software, and IT services for US\$ 4.35 million under the IT-solutions component; and marketing measures and promotion related services to US\$ 0.8 million under Change management component.

3.1.2 Procurement profile of the Program

45. Procurement Overview: Implementation of the PforR will rely on and follow the GoU procurement systems and arrangements established within the MoE and its subordinated institution BDF as well as other agencies. A brief description of activities carried out within the PforR are listed below.

Table 7: Procurement activities within PforR-financed programs

Program Number	Short name*	Procurement activities by implementing agencies	PforR allocation (in US\$ million)
1201450	Affordable Loans 5-7-9%	No procurements: the program will finance partial or full interest compensation under credits provided to business entities	1448.3

Program Number	Short name*	Procurement activities by implementing agencies	PforR allocation (in US\$ million)
1201430	Support for Domestic Demand for Local Goods and Services	No procurements: The program will finance cashback to individuals for the procurement of domestic products and services	69.0
2901060	Innovation Development Fund	No procurements: budget program provides grants for defense technologies	0
1201310	Agricultural machinery and equipment grants	No procurements: the program provides partial compensation (25%) to the agrarian businesses for the purchased domestic agricultural machinery and vehicles.	23.0
1201340	Industrial Parks	Procurement of furniture and office equipment for the establishment of Industrial Parks Development Office, trainings, promotion activities in accordance with PPL financed by the program budget. The program will finance grants and compensations for the establishment of industrial parks, connection to power supply mains and interest compensations. Compensations provided to applicants (utility, private, management companies) shall not exceed \$ 3.7 mln and will be provided on co-financing basis (50/50).	23.0
1201350	e-Robota	No procurements: The program will finance grants for SMEs for the procurement of equipment for the establishment or enhancement of processing plants, greenhouses and gardening. Grants up to \$0.2 mln provided on co-financing basis (50/50).	81.9
1201360	Investment Nanny	No procurements: The program will finance compensations for the constructed utility and transport infrastructure, required for the implementation of investment projects. The compensation will not exceed 30% of the investment project cost.	69.0

Program Number	Short name*	Procurement activities by implementing agencies	PforR allocation (in US\$ million)
1201010	MoE Salaries	The program will finance the MoE salaries. Procurement may include software maintenance, expenses for stationery, utility costs, communication etc. Procurement is carried in accordance with the PPL and financed by the program budget.	39.3
411240	EEPO	The program will finance EEPO salaries, procurement may include analytical services, access to international databases, arrangement of participation in international exhibitions in accordance with PPL financed by the program budget.	3.4

46. Mainly due to the lack of budget financing, procurements conducted by the MoE as well as other programs implementing entities during recent years were limited by procurement of goods, works and services required basically to support operational activity¹⁶ (transport services, accounting and audit, services related to the maintenance of premises and buildings, reconstruction of the power supply line for installation of diesel generator, IT system support etc.). These procurements were conducted in accordance with national procurement legislation either through Prozorro competitive procedures or without application of electronic procurement system, but with subsequent publication of concluded contract.

47. Procurements that follow the national Public Procurement Law utilize the national e-procurement system ProZorro. The national procurement system is decentralized with each implemented agency being responsible for its own procurement. Each implemented agency has an obligation to prepare annual Procurement Plans and procure based on annual budgets allocated to it. The PPL requires to publish the Procurement Plan within 5 business days after endorsement. The Accounting Chamber of Ukraine and the State Audit Service (SAS) exercise the monitoring function over those entities' procurement activities by conducting periodic audits and inspections.

Procurement Regulatory Framework:

48. The Government public procurement system has evolved in recent years. The EU-Ukraine Association Agreement signed in March and June 2014 imposed obligatory reforms regarding problematic public procurement sectors in Ukraine. A Strategy for Public Procurement Reform (Roadmap) approved by the ordinance of CMU of 24 February 2016 №175 for harmonization with EU legislation till 2022 was therefore developed along with the strategy of procurement reform which represent the framework of e-procurement system called ProZorro (<https://prozorro.gov.ua>). In continuation of the alignment, new Strategy for Public Procurement Reform for 2024-2026 was drafted and approved by the ordinance of

¹⁶ Total amount of contracts concluded by MoE and BDF within budget financing starting from 2022 equals to US\$ 1.413 million (UAH 57.2 million).

CMU of 02 February 2024 №76-p. The current public procurement legal framework comprises both primary and secondary legislation. There is one main law on Public Procurement (the Law of Ukraine “On Public Procurement” no. 922-VII of 25 December 2015 with amendments) that came into force in April 2016 (with multiple amendments and updates adopted since then). The current legal framework includes also the secondary legislation including several regulations, and numerous orders issued by the Ministry of Economy (the regulator). The key element of the secondary regulation is CMU Decree No. 1178 dated October 12, 2022 “On approval of the specifics of public procurement of goods, works and services for customers, provided for by the Law of Ukraine “On Public Procurement”, for the period of the legal regime of martial law in Ukraine and within 90 days from the day of its termination or cancellation””. It introduces several essential flexibilities to streamline procurement in a situation of ongoing war, including shorter bidding time, increased thresholds for mandatory use of ProZorro and additional circumstances justifying direct contracting outside ProZorro. All implementing agencies of the Program must comply with the national public procurement legislation. Ukraine is also a member of WTO Government Procurement Agreement since May 2016. All Implementing Institutions are subject to public procurement legislation.

49. The rollout of Ukraine’s e-procurement system called ‘ProZorro’ enhanced transparency and efficiency of public procurement. The system has been developed in close cooperation between the government, private sector, and civil society. All budget-funded authorities at central and sub-national level, public utilities, state-owned enterprises must procure goods, works and services priced above the PPL thresholds electronically through ProZorro. The pre-war thresholds have been revised for the martial law effectiveness period as follows: UAH 100,000 (US\$2,540 equivalent) for goods and services; UAH 200,000 (US\$5,080 equivalent) for maintenance repairs; and UAH 1,500,000 (US\$38,120 equivalent) for works. Publication of award notice is mandatory for procurement below the thresholds but above UAH 50,000 (US\$1,270 equivalent) for goods, works and services. Contracting authorities may use their internal regulations and procedures for procurement below the PPL thresholds. In most cases, contracting authorities also use ProZorro system or its e-catalogues (ProZorro market) for small value, which is a good practice. Procurement in response to an emergency in the critical infrastructure sector may only be done outside ProZorro during the martial law effectiveness period, but each case must be properly justified and documented by the contracting authority.

50. The national procurement system is fully decentralized with each budget holder responsible for their own procurement. Each Implementing Institution, whether it is a line ministry or other government entity, which is directly financed from state budget, prepares annual Procurement Plans and conducts procurement on the basis of annual budget allocations approved.

51. Procurement under the IPF components is expected to involve mainly consultant services, goods and IT to provide technical assistance to the MoE and strengthen project management. No investments in civil works are envisaged. Procurement activities within the IPF are listed below.

Table 8: Procurement activities within IPF

IPF component	Activities	IPF allocation (in US\$ million)
Operation support	Technical assistance, training and operating costs of MoE and MoF for the PforR management, implementation, monitoring and	3.0

IPF component	Activities	IPF allocation (in US\$ million)
	evaluation, including the costs for the Independent Verification Agent	
Targeted technical assistance and capacity building	Technical support and skills transfers for MoE, MoF, ECA, and UkraineInvest to: implement a full-scale Policy Effectiveness Review (PER) in 2025 and 2026 of all private sector support policies and programs of the GoU, develop and institutionalize a regular monitoring and evaluation system of private sector support policies and programs, developing a green finance regulatory framework in line with the European Green Deal objectives, institutional strengthening of investment promotion and facilitation and institutional strengthening of the ECA	11.0
IT solutions	IT solutions (hardware and software) in support of digitization of ECA and MoE, as well as creation of a digital investment platform for Ukraine’s reconstruction; these activities are not included in the National Budget, but they are critical for the early stages of implementation of the Program	9.0
Change management	Financing staff, operational costs and capacity building for communications and work with internal and external stakeholders to support constituencies for reforms across all three results areas	7.0
	Total:	30.0

52. Given MoE’s limited experience in procurement in accordance with World Bank’s rules and procedures, the PIU will be strengthened by hiring procurement consultant with appropriate experience. These activities will be reflected in the Project Procurement Strategy for Development and draft procurement plan currently under preparation. The procurement of goods and non-consulting services will be conducted through the national e-procurement system Prozorro, which has been assessed by the World Bank and found acceptable for procurement of goods, works, and non-consulting services within for World Bank-financed projects. Existing national procurement procedures meet the World Bank’s requirements, except the necessity to incorporate applicability of the Bank's ACGs, including the right to sanction and inspection and audit (without any limitations).

53. **The Program is subject to the World Bank Anti-Corruption Guidelines (ACGs).** To implement the Bank’s ACGs for PforR operations, the MoE, the MoF will immediately inform the World Bank of any complaint or claim related to fraud and corruption which the MoE, the MoF either receives or is notified. Unless otherwise agreed by the World Bank, the MoE, MoF will take timely and appropriate action to investigate such allegations and indications; will report to the World Bank on the actions taken in any such investigation; and, promptly upon the completion of any such investigation, will report to the World Bank the findings thereof. The MoE, MoF will provide the World Bank with all the records, documentation, and information that the Bank may request with respect to such issues.

3.2 Budget Execution

3.2.1 Treasury management and funds flow. The funds flow arrangement for Program implementation.

54. Adequate funds are available to finance Program implementation as planned, below are the details of budget execution details.

55. Funds availability: Fiduciary assessment confirmed with the MoE and other implementing agencies that actual funds were largely available through the STU for payments on expenditure items that are part of the approved budget. Delays in payments execution by the STU were reported in 2022 and 2023, but they did not affect overall performance, and were subsequently settled either in full or almost in full. Generally, payments under protected budget items are financed as a priority; however, unprotected items also got financed in full, even if with some delay.

56. As the implementing institutions submit their calculations for the amounts to be included in the next fiscal year's budget, those initially requested amounts are often reduced by the MOF, particularly with respect to capital expenditure items. However, the amount that is approved by the MOF is then financed in full during the fiscal year.

57. Payment processing: It was confirmed that the STU' payment processes operate reasonably well. The STU executes budget expenditures for implementing institutions at all levels. These arrangements enable close and regular monitoring, reconciliation and controls (including cross-checks) related to the financial information on respective budget expenditures. All expenditure transactions of the Implementing institutions are executed through STU, and the STU performs reconciliations of funds flows and account balances on a daily basis.

58. The MoE and other implementing agencies receive their monthly apportionment limits within one month after budget approval. Treasury controls spending according to plans and apportionments. The commitment module of the STU' system ensures that all commitments are controlled within budget allocations. Implementing institutions commit funds up to the value of their annual budget allocations and make payments up to the value of their monthly apportionment limits. In the beginning of each month the STU allocates protected budget categories, such as wages and utility payments, which represent about eighty percent of their budget. All other expenditures are allocated based on proposals of the STU approved by the MOF and taking into account available and forecasted STU fund flows.

59. The State Treasury of Ukraine: It was confirmed that the STU Controls over the Program spending function reasonably well. Any commitment or payment of a budget spending entity needs the prior approval of the STU. The STU checks the entities' availability of budget under the monthly apportionment ceilings. Requests for commitments and payments must be sent with documentation showing the compliance of the requests with plans, rules and procedures, including procurement procedures. The ex-ante expenditure commitment controls of the STU prevent spending units taking commitments beyond the in-year spending limits. Irregularities, if any, will be in due time corrected by the Treasury control.

60. The STU prepares monthly and quarterly reports on the Implementing Institutions expenditures, after end of each month and end of each quarter. There are no major concerns over the quality of information, particularly considering the robust controls in place and periodic reconciliation of data with the Implementing Institutions. However, expenditures are only recorded at the stage of making payments, and commitments are not recorded in the existing system.

61. The Information and Communication Technology systems in the STU is continuously maintained and upgraded.

62. Analysis of deviations: planned vs. actual: It was confirmed that the Program budgets lines are implemented in line with plans, no deviations in funding of the programs that were implemented before 2024 were identified. The MoE and other implementing agencies do perform analysis of the deviations when they occur and are able to provide explanation for such deviations based on the analysis of budget execution reports for the reviewed years.

3.2.2 Accounting and financial reporting

63. The assessment concluded that the accounting and financial reporting systems are acceptable for the purposes of the Program. Adequate accounting records are maintained, and financial reports produced by implementing agencies for decision-making, management and reporting. Accounting and reporting systems are comprehensive, to ensure that all activities are recorded and reported in a timely manner.

64. Accounting Standards and IT solutions: Each Implementing Institution has clear records and reports on their respective budget programs, including those that are associated with the Program. Generally, such reports contain reliable information as it is also reconciled with the STU and amounts are regularly confirmed by the STU.

65. National accounting standards used for record-keeping is mostly cash-based, expenditures are only captured at the payment stage, with elements of accrual accounting such as reporting on assets and liabilities and debt. These standards are well known within the MOF, the STU, as this was also confirmed with the implementing agencies.

66. Implementing agencies use a number of different IT solutions to maintain accounting records, produce reports and liaise with the STU. There is no universal IT software in place at all Implementing entities. Some of the IT solutions in use are Is-Pro (accounting), Master-Buhgalteria, AIS State Budget, Medoc (reporting), E-Zvitnist, E-data, Kazna-Kazna (treasury documents exchange, payments, and reporting). While various IT software products are used for accounting purposes, reports under the budget lines included into the Program are submitted to the MoE using Excel spreadsheets.

67. Reporting arrangements: Annual consolidated Program reports will be prepared by the MoE manually with the inputs of the other implementing agencies and submitted to the MOF and then to the World Bank after the end of each financial year of Program implementation.

68. The MoE will prepare reports based on submissions from implementing agencies. Specifically, implementing agencies will need to submit the annual reports on their budget execution to the MoE. The MoE will consolidate the report by all budget lines and will submit it to the MOF and the MOF will produce an annual Program report which will only contain the budget lines of respective Implementing units which are associated with the program. The MoE was confirmed to have the capacity for preparation of such Program financial statements. MOE and implementing agencies have the capacity and necessary systems in place to prepare reports on all budget programs under their responsibility. Reports are produced in the timeframe required by legislation and include sufficient detail.

69. It will be easy to include only budget lines associated with the Program, as they would be manually extracted from the consolidated budget execution reports routinely prepared by relevant. As of the time of this assessment, there are a total of nine budget lines included into the Program, with seven of them being within the responsibility of the MoE, one – with EEPO and one with IDF, all being implemented at the central level.

3.2.3 Performance of the procurement system

70. Procurement under the IPF component will be carried out in accordance with the World Bank Procurement Regulations. It is mandatory for the IPF component to use the World Bank's online tool Systematic Tracking of Exchanges in Procurement (STEP) to record all procurement actions, including preparing, updating and clearing Procurement Plan for the Project, and seeking and receiving the Bank's review and No-objection to procurement actions as required. The national e-procurement Prozorro system will be used for procurement of goods and non-consulting services within the IPF component.

71. The MoE is required to apply open competitive methods as the default approach, and all procurement-related notices shall be published on the Prozorro, and UNDB website to enhance competition and transparency.

72. **Special procurement arrangements and fast-track emergency procurement.** Due to the ongoing war in Ukraine, simplified procurement methods and arrangements will be prioritized to streamline procurement implementation. The following flexibilities in procurement can be applied in the IPF: (1) increased procurement thresholds for market approaches: Open International Approach required only from USD 5 mln for goods, IT and non-consulting services; and from USD 0.5mln for consulting services. RFQ permitted for packages below USD 2 mln for goods, IT and non-consulting services; (2) preparation of simplified PPSD and initial Procurement Plan (detailed PPSD deferred to implementation); (3) accelerated Bid/Proposal Times: bid/proposal preparation period may be reduced to 15 business days for international competition and 7 business days for national competition, depending on the value and complexity of the requested scope of bid and the capacity of firms (local and international) to prepare responsive bids; (4) Standstill Period will not apply for any procurement procedure under the Project; (5) bid securities will not be mandatorily required for national and international competitive procedures. Bid securing declaration will be required instead; (6) Tender Packaging and Qualifications: slicing and packaging may be used with the objective of increasing the participation of domestic bidders and ensuring the security of supply. Tender packages may be split into several small lots with the provision of cross discounts where appropriate during the award. Qualification requirements relating to turnover and similar experiences will also be lowered as needed to encourage domestic participation; (7) advance payment guarantees for advance payments up to 10% for contracts will not be required; increasing the amount of advance payments up to 40% of the contract price or more (against the Bank guarantee or insurance guarantee); (8) performance securities for contracts for the supply of goods to be performed within a period of 90 days (3 months) under an open national threshold will not be required. For contracts beyond 90 days and for international threshold level, MoE may request for Performance Securing Declaration (similar to Bid securing declaration) and insurance guarantees as appropriate. Performance bonds or Bank performance security when feasible and necessary may be used depending on risk as assessed by the MoE and agreed with Bank. Approval of applying procurement flexibility should be obtained in advance for any package irrespective of value or review type (ex-post and ex-ante). Requests

for approval of applying flexibilities are considered by the Bank on a case-by-case basis.

73. **Use of Rated Criteria for Procurement of Goods and Non-Consulting Services.** According to the WB Procurement Regulations, Rated Criteria to evaluate the quality aspects (nonprice factors) of bids/proposals, when determining an award decision must be used for international procurement. Evaluation Criteria, weightings, and the specific manner in which they will be applied shall be included in Procurement Documents where applicable.

74. As for the procurement methods allowed by the PPL as revised for the martial law period and used by the MoE and BDF over the last 2 years, they include (1) open competitive tendering, (2) e-catalogues, and (3) direct contracting. Based on the assessment, open competitive procedure through ProZorro and direct contracting are the most frequently used options.

75. Each of the implementing agencies follows identical procedures stipulated by the PPL. Since 2022, standing Tendering Committees of the implementing agencies have been replaced by so-called 'Authorized Persons' – procurement professionals doing procurement of implementing agency's behalf. Structural units of implementing agencies may initiate procurement based on their needs by submitting requests to the Authorized Person. Such requests are subject to review by the procurement, anti-corruption and accounting units as well as other structural units as needed. Based on the review outcomes, the Authorized Person takes an informed decision regarding each request. Relevant units also prepare specifications, requirements, terms of reference for all types of procurement.

76. The implementing agencies plan their procurement actions following the requirements provided in Article 4 of the PPL. Each agency prepares and formally endorses annual procurement plans based on the pre-approved budget program. The PPs are published in ProZorro within 5 business days after the endorsement. The PPs can be changed from time to time and all such changes are also published within 5 business days after their endorsement.

77. ProZorro is a hybrid e-procurement system comprising centralized public and decentralized private marketplaces (tendering platforms). The list of ProZorro-accredited private marketplaces and corresponding hyperlinks are provided on ProZorro website. Bidders wishing to participate in a tender, must register with one of them in order to obtain the bidding document and any addenda thereto and submit clarification requests and, subsequently, bids. The registration is easy and free of charge, but bid submission is not: bidders may bid only upon payment of a fee that varies depending on the lot cost. The CMU determines the amount of submission fees. Language of the system and bidding is Ukrainian, but tenders for procurement of goods or services having estimated cost above EUR 133,000 equivalent and works having estimated cost above EUR 5,150,000 must be translated in English language too.

78. All bidders from any country may participate in any tender procedure. However, in accordance with Article 17 of the PPL, bid may be rejected if the bidder has engaged in fraudulent, corrupt activities or has been declared bankrupt or has outstanding tax liabilities or criminal offences (e.g. included in the Unified State Register of Perpetrators of Corruption or Corruption-related Offences) or has been held liable for bid rigging in the meaning of the Law of Ukraine "On Protection of Economic Competition". The PPL provides for cancellation of tender in case only 1 bid is received from the market, but for the martial law effectiveness period this requirement has been lifted.

79. If the value is lower than thresholds indicated in the PPL (UAH 200,000 for goods and services and UAH 1,500,000 for civil works), a procuring entity may conduct a simplified e-auction through ProZorro, but this is not mandatory. For procurement above the thresholds, the PPL mandates the use of regular procurement procedures stipulated by the PPL as amended for the martial law effectiveness period.

80. Bidding documents are prepared bases on the requirements of Article 22 of the PPL and MoE's Order No. 680 dated April 13, 2016. The bidding documents includes instructions for bid preparation, qualification criteria, technical specifications, evaluation criteria for selecting and draft contract. ProZorro system automatically sets deadlines for bids submission, bids evaluation and contract award in compliance with the PPL as modified for the period of martial law effectiveness. If these deadlines are not met, then the procedure is automatically cancelled.

81. Services of individual consultants are covered either by the Labor Law or Civil Code of Ukraine depending on the contractual arrangement. Government officials are hired as staff under the labor law, the procedure involves competitive selection with publication of selection notices on the IA's website and website of the Civil Service of Ukraine, which performs testing of candidates before they are invited for an interview with the selecting agency. Each agency has a selection committee established, which usually consists of directors of various departments. Based on interviews with the shortlisted candidates, who have passed prior online testing, the best qualified candidate(s) are selected. If experts are hired under the civil law for provision of consulting services and estimated contract cost is above UAH 200,000 (US\$5,000 equivalent), then ProZorro system should be used, but it is also used for contract below this threshold.

Ministry of Economy Tender Efficiency Data and Competition Level

82. During the last 1.5 years (2023 – June 2024), MoE conducted 107 procurement procedures having initial total estimated cost of UAH 44.27mIn (USD 1.1 mln equivalent¹⁷). The largest (by value and number) share of MoE's purchases were non-consulting services relating to the Ministry's day-to-day work. Other purchases included minor goods, fuel and one tender for works. Out of that number, 41 procedures were open competitive tenders having initial estimated cost of UAH 27.6mIn (US\$ 0.68mIn equivalent) and 8 procedures were requests for quotation conducted at ProZorro Market (list of pre-approved suppliers maintained by ProZorro) having initial estimated cost UAH 1.36mIn (US\$0.033mIn equivalent). The MoE cancelled 1 tender due to lack of funding and 11 procedures failed either due to absence of responsive bids or no bids submitted at all. In 5 out of 11 failed tenders, MoE rejected all received bids (1 bid in 3 cases and 2 bids in 2 cases). Most of failed tenders were minor though (up to UAH 0.5mIn, which is US\$13,400), only 1 of them exceeded US\$0.1 equivalent. The total contracted amount resulting from open tendering is UAH 17.76mIn (US\$0.437mIn equivalent).

83. MoE's bidding documents are fine in all material respects, including qualification requirements, technical and commercial conditions, and bid preparation time. On the average, 1.4 bids were submitted for each lot in open procedures with 6 lots recording 0 bids and 24 lots recording 1 bid only. The MoE disqualified bidder in 17 tenders, including 5 cases of rejecting all received bids and 8 cases when 1 of 2

¹⁷ Based on the exchange rate UAH 40.65 for USD 1 prevailing on June 18, 2024

or 2 of 3 received bids were rejected. The rejection rate is rather high with 20 rejections out of 67 received bids. 9 complaints are recorded for 6 tenders, but 7 of them have been filed by the same IT company under 4 open tenders requesting amendments to the bidding document and challenging disqualification. None has been satisfied by AMCU. Only in 1 case out of 9 complaints AMCU ruled in complainant's favor and obliged MoE to cancel disqualification. The MoE complied with the ruling. The period from tender launch to contract signing varied from 20 to 34 days in most cases. In cases involving procurement complaints, it took MoE around 40 to 56 days to sign contracts.

84. During the same period, MoE procured 58 contracts having total estimated cost UAH 15.29mln (US\$ 0.38 equivalent) outside ProZorro using direct contracting. Most of those contracts fall below the PPL thresholds, but there are also several directly sourced contracts above the thresholds, the biggest of which is a UAH 2mln (US\$ 0.05mln equivalent) one for heating services. In all cases, MoE provided justifications referring to specific legal norms permitting direct contracting. The justifications and awards/signed contracts are available in ProZorro in conformity to the PPL.

Business Development Fund Tender Efficiency Data and Competition Level

85. During the last 1.5 years (2023 – June 2024) BDF conducted 62 procurement procedures having initial total estimated cost of UAH 5.36mln (USD 0.13 mln equivalent¹⁸). The two largest (by value) BDF's purchases were auditing services for BDF for the amount of UAH3.66mln (USD 0.09 mln equivalent), the largest share of the BDF's purchases were non-consulting services relating to the BDF's day-to-day work (UAH1.06mln or USD 0.026 mln). Other purchases included stationary, licenses, hard and software relating to the BDF's work. Out of that number, only 5 procedures were open competitive tenders having initial estimated cost of UAH 5.47mln (US\$ 0.13mln equivalent) and 56 procedures were non-competitive bidding, each of them was below PPL thresholds of UAH 100,000 (US\$2,540 equivalent). The BDF cancelled 1 tender due to the technical error (misprinted procedure type). The total contracted amount resulting from open tendering is UAH 4.45mln (US\$0.109mln equivalent).

86. BDF's bidding documents are fine in all material respects, including qualification requirements, technical and commercial conditions, and bid preparation time. Out of 5 open biddings only 1 bid was submitted for 3 biddings and on the average 3,5 bids for 2 biddings. The BDF rejected bids in 1 bidding when 2 of 3 received bids were rejected. The rejection rate is rather high with 2 rejections out of 10 received bids. No complaints are recorded. The period from tender launch to contract signing varied from 20 to 34 days in most cases

Procurement Oversight

87. SAS and ACU are the agencies in charge of implementing agencies' procurement actions oversight. ACU's mandate covers audit of the financial statements of the government, execution status of the annual state budget and procurement transactions, including contracts executed and payments made against signed contracts. SAS mandate includes audit of implementing agencies' procurement transactions based on the system of risk-based indicators revised and updated from time to time. The Program audit arrangements will include specifications, requirements and terms of reference covering proposed procurement activities.

¹⁸ Based on the exchange rate UAH 40.65 for USD 1 prevailing on June 18, 2024

88. Civil society actively engages in monitoring of public procurement in Ukraine using DoZorro platform and other instruments. DoZorro is a monitoring portal where all interested stakeholders may provide feedback to a contracting authority or supplier, discuss, and assess all conditions of a specific procurement procedure, including the price aspect. Multiple NGOs present in Ukraine also monitor public procurement at all levels with specific attention to the central governmental level.

This assessment concludes that MoE and BDF have adequate capacity to undertake procurement activities that may be needed under the Program scope following PPL. The procurement arrangements are overall fine with savings recorded in many competitive procedures.

3.2.4 Contract administration

89. Once the contract is awarded, the implementing agency proceed with contract signing and pertinent technical units of the implementing agency take the charge in implementation monitoring, supervision, time, cost, and quality control. Copy of all signed contracts are publicly available on ProZorro website including links to payments made through the State Treasury. All payments are processed by the implementing agencies' financial departments based on the acceptance/completion documents provided by the technical units tasked with contract implementation function. Payment discipline is fine in most cases. Given the annual budgeting system of the country, vast majority of signed contracts are completed by end of calendar year, which is also the end of the budgetary year.

90. The PPL provides for a possibility to amend contracts, including extension of completion/delivery time and price adjustment, but the latter does not happen frequently. Contract amendments, whenever needed, are handled in accordance with the terms and conditions of signed contracts and processed internally in an expeditious manner. In most cases, contracts amendments relate to extension of completion/delivery time.

91. All contracts provide for a dispute resolution procedure that provides for amicable settlement as the primary option. If the parties fail to settle a dispute amicably, no adjudication or arbitration procedure is envisaged, and the parties should refer to the regular court.

92. Overall, the contract administration practices are robust and satisfactory.

93. The IPF requires continued attention and managerial support to ensure that the activities are completed on schedule. Contract management during ongoing full-scale war in Ukraine poses new challenges for the MoE. A consolidated project implementation plan shall be established, which allows track all procurement activities and optimize the plan and sequence of activities. The contract management shall be in the scope of tasks of technical experts/subject matter specialists of the MoE, staff responsible for implementation of relevant domains of the Project, as well as PIU consultants (Head of PIU, procurement specialists, financial specialist, etc.). The Program will use the World Bank's online tool STEP for procurement information exchanges and recording, as well as Contract management module in STEP to record and monitor the progress of contracts implementation.

3.3 Internal Controls

3.3.1 Internal controls

94. The assessment concluded that the internal control systems of the MoE and implementing agencies are acceptable for the purposes of the Program implementation. The Program will apply the internal control arrangements which exist at the MoE and implementing agencies. To confirm the continuous soundness of the control environment of the Program implementation, the program will also be subject to external audit. The auditors will be required to report on any internal control deficiencies that have been identified during such annual audit of the Program.

95. Internal controls and procedures of Implementing Institution and agencies are in line with the existing laws and regulations on the public accounting and reporting. Specifically, the legislation that governs the establishment and operations of the internal controls at the Implementing Institutions is CMU Decree #1062 from December 12, 2018. MoE and implementing agencies have internal orders on some specific internal control aspects, such as guidelines on the contract preparation and management. In cases where no such internal regulations are available, responsible staff follow the requirements of their job description, and perform their tasks in line with requirements of relevant legislation.

96. Budget execution controls are implemented consistently throughout the Implementing units. The budget execution systems apply controls that include (1) technical approval by the beneficiary department (2) finance staff review and approval (3) periodic checks by internal and external audits. These controls are applied to the entire budget execution process, from budget preparation to contract implementation, and then to acceptance of goods and services and subsequent payment and recording of transaction.

97. All Implementing agencies use the State Treasury of Ukraine for executing their expenditures. The segregation of duties between the State Treasury and the implementing agencies are comprehensive and relevant. All Implementing agencies also have reasonable segregation of duties. Each Implementing agency has ex-ante controls over its payments. The payments are then also periodically checked by the SAS and the ACU ex-post, regarding their lawfulness.

98. The STU has robust system of internal controls in place, that have proven to function reasonably well and reliably. Any commitment or payment of the Implementing Institution needs prior approval of the STU. The STU checks the entities' availability of budget under the monthly apportionment ceilings. Implementing Institutions send requests for commitments and payments along with the documentation that shows compliance with the plans, rules and procedures. The STU requests additional information/clarifications in case of any deviations from the established practices.

3.3.2 Internal audit

99. Fiduciary assessment concluded that reliance will be primarily placed on external audit, rather than internal audit reviews, to confirm proper annual Program execution. This is based on the following: (1) The audit function is not implemented in all Implementing Institutions; the capacity of such units and the scope of internal audit reviews varies; (2) The budget lines included in the Program did not systemically fall under the scope of internal audit reviews in the recent years.

100. The legislation that governs the establishment and operations of the internal audit at the Implementing Institutions is the CMU Decree #1062 from December 12, 2018. Some Implementing Institutions also issued internal decree or order which defines more specifically the functions and

responsibilities of their internal audit units. Internal audit units in Implementing Institutions report directly to the Minister or Head. Upon receipt of the internal audit report, the Minister or Head issue an order to respective units of the implementing institution to take actions upon recommendations of the internal auditor. Monitoring of the implementation of the action plan is then often performed by the internal audit unit.

101. The size, staffing and functionality of the internal audit unit varies in all program Implementing entities. Internal audits of the implementing institutions cover the budget spending at both the central and local levels. This broad scope is covered by relatively limited staff, and so the coverage of the budget programs as well as total expenditures covered by the internal audit can vary. It was confirmed that some of the Program Implementing Institutions publish their annual and semi-annual audit plans as well as the results of internal audit reviews on their website; however, this practice is not always followed.

102. Most of internal audit work is focused on checking financial transactions and compliance of activities, and it still does not have systematic or diagnostic nature. Generally, three types of audits are carried out – system and operational audits, performance audits and also financial audits. Assessment of effectiveness of internal controls and management processes is not carried out. The Ukrainian Internal Audit Standards which are used by the central executive authorities are based on the International Standards for the Professional Practice and Internal Audit issued by IIA. Heads of all internal audit units of the Implementing Institutions report to the head of respective entity. The audit plans are developed semi-annually and annually, and they are somewhat based on the risk assessment. In addition, internal auditors rely on their professional judgement and recommendations received from heads of other departments, as confirmed with the implementing agencies. Audit findings are generally reported to be followed up during subsequent reviews as well as through immediate responses/actions taken by the respective heads and ministers.

103. As mentioned, the Program is audited by the Accounting Chamber of Ukraine (ACU) as the supreme audit institution in Ukraine in accordance with the requirements of the Budget Code and the requirements of the Law of Ukraine “On the Basic Principles of State Financial Control in Ukraine”. All procurement activities of the MoE are audited by the ACU as part of the audit.

104. During 2023-June 2024 the ACU audited the MoE within the following audits:

- ✓ *Financial Audit of the Acceleration of Private Investments in Agriculture Program for year 2023*¹⁹, in which the MoE is an implementing agency along with BDF, MoF and Ministry of Agrarian Policy and Food of Ukraine. No significant distortions were found at the level of financial reporting of the Program, however, there were some recommendations such as: to update the accounting policy regulations of all implementing agencies to define the principles, methods and procedures used to prepare and submit reports under the Program; update job instructions of the MoE staff to include tasks and responsibilities regarding the implementation of the Program.
- ✓ *Analysis of the MoE’s Annual Report for year 2022 in regard of the public procurement system*²⁰.

¹⁹ Report of the ACU on the results of the Financial Audit of Acceleration of Private Investments in Agriculture Program for year 2023, approved by the ACU of June 14, 2024: https://rp.gov.ua/upload-files/Activity/Collegium/2024/30-2_2024/Zvit_30-2_2024.pdf

²⁰ Report of the ACU on the results of the analysis of the MoE’s annual “Report that contains an analysis of the functioning of the public procurement system and generalized information on the results of control in the field of procurement for 2022”, approved by the ACU of June 27, 2023 https://rp.gov.ua/upload-files/Activity/Collegium/2023/13-1_2023/Zvit_13-1_2023.pdf

The ACU's recommendations include: publish the MoE's Annual Reports for 2021 and 2022 on the official website of the MoE; develop a strategy for the development of the public procurement system, which will be implemented after the Reform Strategy; update the state standard regarding the estimate norms of Ukraine in construction; define in the Ministry's strategic activity plan the goals of state policy directly for the field of public procurement and the corresponding tasks and measures; develop a method of comprehensive economic analysis of the effectiveness of the public procurement system; complete the review of the professional standard for the "Public Procurement Specialist" profession in 2023; work out the feasibility of approving a separate document of the strategy (plan of activities) for the professionalization of the sphere of public procurement and defining in it the goals, tasks and performance indicators that can be evaluated according to quantitative and qualitative criteria; ensure the inclusion in the annual report of information on: the results of activities on the dissemination in Ukraine of information on the peculiarities of the international practice of procurement; the state of consideration (implementation) of proposals and appeals regarding the development of the sphere of public procurement and improvement of the EHS; development of methodological support for public procurement in emergency situations; measures have been taken to respond to the results of control in the field of public procurement.

3.3.3 Program governance and anticorruption arrangements

105. Complaint handling mechanism: As for procurement following PPL in terms of complaint handling mechanism, Antimonopoly Committee of Ukraine (AMCU) is the agency responsible for procurement appeals in the Ukrainian public e-procurement system. ProZorro supports the electronic submission of complaints from interested individuals and legal entities through one of the operating platforms directly to the AMCU. The submission of the appeal and outcomes of appeal reviews are open to public. Participants of the procurement procedures may also appeal directly to court without filing a complaint with the AMCU first.

106. On the basis of Article 18 of the PPL, complaints with regard to tender documents and/or decisions, actions or omissions by the contracting authority which took place before the expiration of the time limit established for the submission of tenders may be submitted to the Complaint Review Authority (i.e., the AMCU) following the publication of the announcement of the procurement procedure, but not later than four days prior to the deadline established for the submission of tenders.

107. Complaints regarding decisions, actions or omissions by the contracting authority which took place after the evaluation of tenders shall be submitted within 10 days following the day when the complainant found out or should have found out about the violation of its rights, but before the date of the procurement contract signing. The AMCU, within three business days upon entering the complaint into the register of complaints, publishes its decision on admission of the complaint within the e-procurement system, indicating the date, time and place of the complaint review, or a decision with justification to dismiss the complaint without considering it, or a decision on discontinuing consideration of the complaint. The e-procurement system automatically publishes decisions adopted by the AMCU on the ProZorro website and sends notices to the complainant and to the contracting authority. There is a 10 working days limit for reviewing complaints, which could be extended to 20 working days. During the complaint consideration, the time limits for the procurement procedures are suspended; the procurement contract may not be concluded while the review is pending. Complainant or contracting

authority may appeal against the decision in court within 30 days of the date of publication of the decision within the e-procurement system.

108. During the review period (January 2023 – June 2024), 9 complaints are recorded for the MoE (6 submitted by the same firm in several procedures) and no complaints have been filed in BDF tenders. The AMCU supported the complainant in 1 case ruling to cancel disqualification and the MoE complied in the case. The MoE disqualified the complainant for another reason that has not be questioned further. The AMCU decided in favor of the MoE in the remaining 8 cases either leaving complaints without review with proper justification or supporting the MoE.

109. The IPF will follow an administrative process of resolving complaints and disputes as it is described in the World Bank's Procurement Regulations, that envisages wide publishing of information on procurement activity, including Request for Expression of Interest, Bidding requirements, Contract Awarding to ensure transparency and fair competition. The program will follow formal procedures, described in Procurement Regulations, allowing bidders and consultants to be debriefed about the grounds on which they were not awarded the contracts and file their complaints against deemed improper procurement actions made by the MoE and PIU, that will be considered and resolved in accordance with established procedure. The Project will use the complaint management module in STEP.

110. **Grievance Redress Mechanism.** Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation may submit complaints to the existing program grievance mechanism or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent 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 at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. Complaints can be submitted at any time during the implementation period of the Project.

111. Compliance with Anti-Corruption Guidelines (ACGs): Ukraine continues to face systemic and pervasive corruption challenges which constrain economic development and weakens public trust and support for elected officials. The corruption risks were exacerbated by Russia's full-scale invasion in Ukraine in 2022, increased expenses directed to reconstruction and other high-risk sectors and reduced transparency of public administration expenses caused by martial law. According to the national polls, in 2023, 71.6 per cent of respondents among population considered corruption to be a major problem for the country, second only to Russia's invasion. The corruption severity indicator has returned to the level of 2020-2021, after a decrease in 2022 (64.2 per cent). Survey of businesses showed a similar result (corruption holding second place among major problems with 73 per cent, an increase from 55 per cent in 2022). The survey results showed that corruption levels, after a short-term decline in 2022, have returned to the pre-war state in 2023 raising concern that large-scale corruption practices may be coming back. According to the population, corruption prevalence was the highest in the judicial system (4.52 points), customs (4.41), and border control (4.25). For businesses, corruption was the most widespread in

the permits issuing, mineral extraction and at the customs (4.44 points), followed by public procurement in road construction (4.39) and other large infrastructure projects (4.23).²¹

112. At the same time, Ukraine has made progress in building the legal and institutional foundation for tackling its corruption problems with strong support and the exercise of leverage from the international community. The creation of the National Anti-Corruption Bureau of Ukraine (NABU) and the Special Anti-Corruption Prosecutors Office (SAPO) to investigate and prosecute high-level corruption supported by the High Anti-Corruption Court of Ukraine resulted in the significant number of successful and pending cases against top officials. As noted in the 2023 EU enlargement report on Ukraine,²² progress was made with the establishment and consolidation of a comprehensive anti-corruption institutional framework and the gradual building of a track record in investigating, prosecuting and adjudicating high-level corruption cases. Ukraine stepped up reforms in this area after receiving EU candidate status. New legislative, strategic and institutional improvements were pursued, including the adoption of the national anticorruption strategy, accompanied by a comprehensive state program for its implementation. The new Heads of SAPO and the NABU were appointed in July 2022 and March 2023 respectively, following transparent and meritocratic selection procedures with the involvement of independent experts. Since their appointment, NABU and SAPO have increased their cooperation and stepped-up investigations into high-level corruption cases. The e-asset declaration system, suspended after the introduction of martial law, was restored and opened to the public, albeit with some potential weaknesses related to the verification powers of the National Agency on Corruption Prevention (NACP) and the data to be verified.²³ According to the EU report, to ensure the impact and sustainability of anti-corruption efforts, Ukraine should continue building a credible track record of investigations, prosecutions and final court decisions in high-level corruption cases, including the seizure and confiscation of criminal assets. Timely and steady implementation of the 2023-2025 state anti-corruption program should also be pursued. Efforts are also needed to further streamline and improve substantive and procedural criminal law. To cope with increasing workloads, the number of NABU staff, SAPO prosecutors and High Anti-Corruption Court judges should be increased.²⁴ Furthermore, SAPO should be further protected from possible undue interference by improving the selection procedures for the Head of SAPO and its key officials, increasing its organizational and procedural autonomy, and improving its accountability framework.²⁵

113. Multitude of Ukrainian anti-corruption institutions responsible for prevention, investigation of and justice for corruption-related crimes cooperate between them. A brief description is provided is provided in the table below.

Anti-Corruption Infrastructure of Ukraine²⁶

No	Name of the Anticorruption institution in Ukraine	Area of responsibility
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²¹ Source: National Agency for Corruption Prevention, Corruption in Ukraine 2023: Understanding, Perception, Prevalence, <https://nazk.gov.ua/pdfjs/?file=/wp-content/uploads/Pages/c4/42/c442a4b445832042a4c85fe1ee63ac7687dfb4f5182466aab140dc2ec1db0a0c4606251.pdf>.

²² https://neighbourhood-enlargement.ec.europa.eu/ukraine-report-2023_en.

²³ These issues were addressed in the amendments adopted in December 2023, <https://zakon.rada.gov.ua/laws/show/3503-20>.

²⁴ Subsequently, the number of staff limit for NABU was increased by 300 persons and additional judicial positions were added to the High Anti-Corruption Court (first instance and appeal court judges).

²⁵ Relevant amendments were adopted in December 2023, <https://zakon.rada.gov.ua/laws/show/3509-20..>

²⁶ Organization chart from TI Ukraine: <https://ti-ukraine.org/en/project/anti-corruption-infrastructure/>

1	<i>National Anticorruption Bureau of Ukraine (NABU)</i>	Investigates corruption crimes involving officials or large sums of state funds. This is a central body of executive power with a special status, which fights corruption in the highest echelons of power and carries out only pre-trial investigations.
2	<i>State Bureau of Investigation (SBI)</i>	The SBI prevents, detects, discloses, and investigates criminal offenses committed by senior officials.
3	<i>National Agency for Corruption Prevention (NACP)</i>	NACP is not a law enforcement agency, its main job is to prevent corruption. It's responsible for the formation of anti-corruption policy and prevention of corruption.
4	<i>Specialized Anti-Corruption Prosecutor's Office (SAPO)</i>	SAPO is an independent structural subdivision of the Office of the Prosecutor General, which supervises the observance of laws during the operational investigative activities of the NABU pre-trial investigation, supports the state prosecution in the relevant proceedings, and represents the interests of the citizen or the state in court in cases related to corruption offenses.
5	<i>High Anti-Corruption Court (HACC)</i>	HACC is the highest specialized court in the judicial system of Ukraine. It carries out justice with the aim of protecting the person, society and the state from corruption and corruption-related criminals and control over the pre-trial investigation of the criminals.

114. In March 2024, the IMF report²⁷ noted that sustained progress on anti-corruption reforms is critical to public and donor confidence, and the goal of EU membership. Complementing the reform on strengthening SAPO, the authorities are planning further amendments to the criminal procedural code to enhance the effectiveness of corruption investigations, including on mutual legal assistance and reasonableness of time limits of pre-trial investigations. Asset declarations of public officials, which were made publicly accessible again in end-January 2024, are now undergoing risk-based verification by the NACP to detect illicit enrichment. A new head of the NACP was appointed in February 2024, and competitions for new anti-corruption judges are under way, both with participation of independent experts with international experience. IMF Staff also encouraged the authorities to advance work on the creation of a new administrative court, completion of the external audit of the NABU, and enhancing effectiveness of supreme audit institutions.

115. As per requirements of the Anti-corruption law in force in Ukraine (Law on Corruption Prevention#1700-VII), all government agencies have established an anti-corruption position or unit. All public authorities and SOEs also must conduct an annual corruption risk assessment and develop an anti-corruption compliance program. All Implementing Institutions involved in procurement are subject to yearly external independent audits i.e., by the ACU, SAS, with additional regular oversight conducted by various NGOs. In addition to procurement related complaint submitted via the ProZorro system, any bidder or any party can report fraud and corruption issues to any of these government agencies in anonymous or non-anonymous manner. There are established procedures for verification of such allegations, and they are also available on respective agencies websites. The number of corruption related allegations received on annual basis vary among Implementing Institutions. In vast majority of cases, these allegations are not referred further to the law enforcement bodies such as the police or prosecutor, as they are not substantiated. Once the claims are transferred to relevant authorized agencies, there is no report back on the status of the final resolution, unless the entity which forwarded the complaint

²⁷ <https://www.imf.org/en/Publications/CR/Issues/2024/03/22/Ukraine-Third-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-Facility-546741>.

specifically request the authorized body to inform them on the status of complaint review and final resolution.

116. The MoE has established Corruption Prevention Department, accountable directly to the State Secretary, and a mid-term anticorruption program for 2024-2026, approved by the MoE's order and available at the MOE's website.

117. The Program is subject to the Bank's Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing dated February 1, 2012, revised July 10, 2015. The MoE has agreed to inform the Bank of any credible and material allegations of fraud and corruption arising in the Program (and how the agencies addressed them) in the program progress reports, after collecting of information from all participating agencies. To this end, the MoE should collect quarterly information from the respective investigation authorities (NABU, SBI, the National Police) concerning allegations of fraud and corruption arising in the Program and the status of any pending investigations (in line with the restrictions on the disclosure of pre-trial investigation information). The MoE and the MoF will conduct annual coordination meetings with the above-mentioned investigative authorities, also engaging the Prosecutor General's Office and the National Agency for Corruption Prevention, to establish protocols for collecting such information and ensuring their effective operation. The meetings will be also used to raise awareness about relevant authorities' roles in preventing and detecting fraud and corruption with the Program's funds and seek solutions to improve prevention and detection. Program progress reports will be provided semi-annually. In case of non-compliance with the Guidelines, legal remedies may be exercised by the Bank. In case of non-compliance with the Guidelines, legal remedies may be exercised by the Bank. To implement the Bank's ACGs for PforR operations, the MoE will immediately inform the World Bank of any complaint or claim related to fraud and corruption which the MoE either receives or is notified. Unless otherwise agreed by the World Bank, the MoE will take timely and appropriate action to investigate such allegations and indications; will report to the World Bank on the actions taken in any such investigation; and, promptly upon the completion of any such investigation, will report to the World Bank the findings thereof. The MoE will provide the World Bank with all the records, documentation, and information that the Bank may request with respect to such issues. This process does not limit the rights of the Bank to also make direct requests for information from individuals or firm who are recipients of Bank financing either directly or indirectly. In line with the obligations arising under the ACGs, the MoE, MoF and all relevant implementing institutions and agencies should ensure that individuals or contractors who are recipients of Bank financing are aware that the Bank may decide to exercise this option.

118. To further ensure the World Bank's Anti-Corruption Guidelines (ACGs) applicable to the Program are met, the MoE shall (i) share information on corruption allegations with the World Bank immediately, while at the same time conducting its own internal investigations. A focal person within the MoE (PIU) will be responsible to coordinate reports and sending them, including any disclosed cases to the World Bank TTLs. At a minimum, the report should cover: Location of the incidence, Date allegation received, Description of the allegation, Stage of handling the allegation, Progress status in the investigation, Outcome of the investigation, and Source of finance for the case (ii) preserve the World Bank's right to investigate Fraud and Corruption allegations.

119. The MoE will ensure that all individuals and entities participating in the Program observe the highest standard of ethics. Specifically, the MoE will ensure that, all persons and entities involved in the program will take all appropriate measures to prevent and combat Fraud and Corruption, and refrain from

engaging in Fraud and Corruption, in connection with the Program. If the MoE, the MoF or the Bank determines that any person or entity has engaged in Fraud and Corruption in connection with the Program, the MoE, the MoF will take timely and appropriate action, satisfactory to the Bank, to remedy or otherwise address the situation and prevent its recurrence in line with ACG and the applicable law of the Ukraine.

120. Sharing of ACGs and Debarment list of firms and individuals with program implementation entities: The MoE will share Bank's ACGs together with official instruction and updated lists of the debarred and temporarily suspended firms and individuals among implementing agencies to ensure that persons or entities debarred or suspended by the Bank are not awarded a contract under the IPF component during the period of such debarment or suspension. The Bank's List of Debarred and Cross-Debarred firms and individuals can be accessed on the World Bank's website (www.worldbank.org/debarr). In addition, the MoE will also include some disclosure measures in bidding documents to be financed under the IPF, including insisting that the firms and/or individuals declare they have not been debarred or suspended and/or have any links with a debarred entity or individual.

3.4 Auditing

3.4.1. Program audit

121. An independent auditor will carry out annual audit of the Program financial statements. Such agreement will be included in the Program legal agreement, and annual audit can be carried out either by Accounting Chamber of Ukraine or a private auditor. Program audits will need to be carried out starting with the first year of Program implementation. The audit reports will need to be produced no later than nine (9) months after the end of each fiscal year. Such Program audit is not part of the existing annual audit arrangements at the ACU (please refer section 4.4.2. for details) and therefore Program audit had to be separately discussed and agreed. In case of ACU's unavailability to carry out audit of the Program's financial statements during any of the years of Program implementation, an acceptable to the World Bank private auditor will be hired to carry out Program audit for such years. In case of private auditor, the total costs of audit can be covered from the IPF component of the project.

122. The Program financial statements will be manually prepared by the MoE. The Program financial statements will include all budget lines that are associated with the Program. The Program financial statements will also include annual amounts spent on the relevant budget lines as well as cumulative amounts since the beginning of program implementation. Such cumulative amounts spent by respective implementing agencies can then be compared to the value of the DLI amount associated with each specific Implementing Institution.

123. The audit of Program financial statements will be carried out according to the TOR that would be prepared by the MOF and reviewed by the World Bank. The TORs would require auditing the annual program financial statements as well as report on any deficiency of internal controls noted in implementation of respective budget lines. Auditors will also review the procurement procedures and respective control framework and report on any high value contracts. Auditors will be required to confirm that all budget program expenditures have been legitimate, including application of WB Anti-corruption guidelines, limitations related to large scale procurements and de-barred items. Additionally, auditors will report on the performance under the determined Key Performance Indicators (KPIs) (refer to Section 6 below).

3.4.2 ACU Mandate and current coverage

124. The ACU has the mandate to audit the financial statements of government as well as the execution of the annual state budget. Performance of each of the Implementing Institutions are periodically checked by the ACU, and the ACU produces a variety of hybrid reports which have similarities with performance audit reports. These reports include conclusions, suggestions and recommendations. Reports include evidence of endorsement of such reports by the Implementing Institutions, however, there is no consistent evidence of the actual actions undertaken by the Implementing Institutions nor subsequent follow up of their implementation by the ACU.

125. The MoE and EEPO were subject to the ACU audits during 2020-2023, including on the Export promotion and E-Robota budget lines, which included into the Program. No significant deviations or violations were identified by the ACU as a result of the audits. The ACU does not usually review these specific budget lines on an annual basis, per its work plan. Given the complex structure of the implementing institutions, including a number of subordinate entities and organizations, the ACU identifies and focuses its periodic reviews on selected budget codes implemented by the MoE or selected number of subordinated entities and organizations at different levels using a risk-based approach. Two relevant audit reports were reviewed in the course of the assessment.

3.4.3 ACU Staffing

126. The ACU has broad experience in audits of World Bank financed projects, however it carried out only one audit of the PforR program, and thus the ACU staff will need to further familiarize themselves with the Program documents as well as underlying principles governing the implementation of the PforRs.

127. The ACU has sufficient staff to carry out the annual audits of the program. Such annual audits need to be included in the audit plan of the ACU which is formed for each fiscal year at the end of the preceding fiscal year.

3.4.4 ACU Audit Methodology

128. The ACU uses own methodology for audits which is based on the ISSAIs in some respects; however, ISSAIs are not fully used in the work of the ACU. Under the respective law ACU has the legal authority to conduct financial audits and compliance audits, and therefore Program audit falls fully under the scope of responsibility of the ACU.

3.5 Procurement and Financial Management Capacity

129. All implementing institutions confirmed that they have adequate budget and staffing to carry out their functions related to public financial management. No serious delays or deficiencies in the budget preparation, budget execution and budget reporting processes were noted that could indicate shortage or personnel. The composition and staffing of the budgeting/planning units of each Implementing Institution varied in size and its internal structure as well as the number of staff. However, composition of such budgeting/planning units of implementing institutions appear to be adequate for the scope of their work related to program execution.

130. MoE and BDF have dedicated units responsible for public procurement that are adequately staffed with procurement specialists and Responsible Persons acting on their behalf in the e-procurement

system. Procurement staff receive periodic training on the application of PPL and any changes thereto. The trainings are organized by the MoE as the line ministry for the national procurement policy and legislation, and/or specialized professionalization centers, central purchasing agencies, etc

131. MoE capacity for PforR and IPF components needs strengthening. To achieve this, the MoE will hire procurement consultant with appropriate experience and provide periodic training in, procurement for fiduciary staff and hired consultants. Staffing should be adequate in both numbers and experience to ensure sustainable public financial management and public procurement functions.

Section 4. Program Systems and Capacity Improvements

132. **Major weaknesses.** Since prior experience of the MoE is limited to partial implementation of a small grant, the MoE capacity shall be strengthened for implementation of both PforR and IPF parts of the project. The MOE shall establish a PIU that shall consist of existing MoE staff as well as hired consultants to complement existing capacity. MoE's PIU shall be headed by MoE deputy Minister and shall coordinate all project activities for the PforR part of the project, in close coordination with relevant MoE departments and subordinated institutions and other agencies that are involved in implementation of the budget expenditure program. To ensure smooth implementation the MoE shall establish a clear structure with a well-defined distribution of responsibilities. MoE's PIU shall also be in charge in carrying out fiduciary functions under the IPF component of the project. Project POM shall span both the PforR and IPF parts of the project and shall need to be approved by MoE.

133. The MoE has limited experience in procurement in accordance with World Bank's rules and procedures, mainly in selection of individual consultants and firms, and there are inefficiencies in carrying out procurement activities. Significant delays have been noted in conducting biddings, bid evaluations and contracting under the ongoing WB-supported Project in MoE. The PIU shall be strengthened by hiring procurement consultant with appropriate experience and provide periodic training in FM, procurement, and disbursement for fiduciary staff. The POM shall include detailed timeline of key procurement and contracts management activities, which shall be followed by MoE PIU for efficient and timely Program implementation.

134. Considering the novelty of PforR as financing instrument for Ukraine and MoE, and MoE's weak human capacity to implement the envisaged DLIs, it is needed to provide capacity building activities for the MoE staff and other implementing agencies within the Program, and hire an Independent Verification Agent (IVA) to support in verification of each DLR.

135. A summary of key fiduciary risk and mitigation measures identified at the assessment are described in Table 9 below.

Table 9: Key Fiduciary Risk and mitigation measures

Risk	Mitigation action	Timing	Type of action (PAP, DLI)	Responsibility
Complexity on the program operational procedures.	Preparation of the Program Operational Manual (POM) detailing procedures for procurement, financial management, anticorruption, environmental and social processes.	October 2024	PAP	MoE
Complex project design, including PforR and IPF components, with the PforR instrument being new for MoE, implementing agencies and relatively new for Ukraine.	<p>Hiring additional fiduciary staff in MoE and implementing agencies.</p> <p>Hiring external auditor to carry out Program audit as well as audit of an IPF component.</p> <p>Hiring an Independent Verification Agent to ensure that project funds are utilized for the purposes and in line with conditions and requirements specified in the grant and loan agreements.</p>	During the IPF components implementation	PAP	MoE, MoF
Procurement				
Currently limited capacity of MoE	<p>Establishing PIU and setting a clear structure with a well-defined distribution of responsibilities between the MoE departments and the PIU.</p> <p>Hiring additional fiduciary staff in MoE.</p>	August 2024	PAP	MoE, MoF
Potential procurement delays because of the war	<p>Apply procedural flexibilities upon WB approval.</p> <p>Accurate procurement planning to come up with realistic scheduling.</p> <p>Advanced preparation of technical specifications and TORs</p>	Throughout the IPF components implementation	PAP	MoE, MoF

Risk	Mitigation action	Timing	Type of action (PAP, DLI)	Responsibility
Risk of delays in payments to contractors/consultants	<p>Revision of the existing payment procedure to identify the major bottlenecks.</p> <p>Preparation of contract payment plan for each contract.</p> <p>Close coordination MoE with MoF and State Treasury Service.</p>	Throughout the IPF components implementation	PAP	MoE, MoF, State Treasury Service
Non-application of Bank debarment/temporary suspension lists which may result in unacceptable contract awards to contractors, consultants and/or suppliers under temporary suspension or cross debarment by the Bank.	<p>Ensure that persons or firms debarred or suspended by the Bank are not awarded a contract by verifying the same prior to award under the Program against the list of debarred firms available at the World Bank external website.</p> <p>TOR for audit firms will include the requirement to assess on randomly basis whether any contract has been awarded to a suspended or debarred firm and no parties debarred or suspended by the Bank shall benefit from the program funds.</p> <p>The MoE, PIU will also present to the World Bank the list of contractors/suppliers and subcontractors/sub-suppliers under these contracts to ensure that the firms chosen are not and were not at time of award or contract signing on the World Bank's List of Debarred firms</p>	Throughout the Program implementation	PAP	MoF, MoE

Risk	Mitigation action	Timing	Type of action (PAP, DLI)	Responsibility
Increased risk of fraud and corruption (abuse of simplified procurement procedures) if applied	<p>Program will be subject to the WB's Anti-Corruption Guidelines (ACG).</p> <p>Each contract will have the requirement for compliance with the World Bank's ACG and its prevailing sanctions policies and procedures as set forth in the WBG's Sanctions Framework, the World Bank's inspection and audit rights.</p> <p>Appropriate and timely entering of procurement information in STEP for automatic detection of ineligible suppliers</p>	Throughout the IPF components implementation	PAP	MoE, MoF
Low level of competition	Combination of tenders into larger packages (incl. multiple lots); sufficient prior advertisement and market sounding	Throughout Program implementation	PAP	MoE
Understaffing due to security situation and conscription to the army	To ensure timely implementation of procurement activities vacant positions shall be filled, and staff involved in the execution of the Program secured before the start of activities and during implementation	Throughout Program implementation	PAP	MoE, MoE
Financial Management				
Consolidated Program financial statements, including annual planned and actual amounts on the implementation of budget programs are not prepared automatically	MoE would manually consolidate data that would be received from the respective agencies in a form specified in the POM and agreed with the Bank	Annually	PAP	MoE

Risk	Mitigation action	Timing	Type of action (PAP, DLI)	Responsibility
Insufficient state budget allocation to relevant budget lines included in the Program	Sufficiency of budget allocation will be monitored through the review of annual Program financial statements and analysis of actual and planned expenditures. Successful implementation of the DLIs will also provide indirect evidence of the sufficiency of budget funding.	Recurrent: annually throughout Program implementation	PAP	MOF MoE
Delays with Program disbursements	The implementing institutions jointly with the World Bank will develop a detailed implementation schedules as well as cost estimates for activities that are required for the implementation of each of the DLIs	September 2024	DLI	MOF MoE
Lack of internal audit function of the local governments	The consolidated Program financial statements will be subject to external financial audit by the Accounting Chamber of Ukraine (ACU), or a private auditor on an annual basis. The SAS will conduct annually random checks of the sample of procurement operations under the Program to check for compliance with the procurement legislation and will use automatic risk indicators to apply to Program's procurement operations.	Recurrent throughout Program implementation	PAP	MoE Implementing agencies
Governance and Anticorruption				

Risk	Mitigation action	Timing	Type of action (PAP, DLI)	Responsibility
<p>Fraud and corruption risks</p>	<p>The obligation to follow Bank's Anti-corruption guidelines will be included in Program legal documents. Members of the TC and evaluation groups will be required to declare the CoI prior to starting their work in respective capacity. Program-financed procurements will be conducted through the e-procurement system following competitive procedures. MoE will collect quarterly information from the competent investigation authorities concerning allegations of fraud and corruption arising in the Program and the status of any pending investigations within their jurisdiction (in line with the restrictions on the disclosure of pre-trial investigation information). The MOF and MoE will conduct annual coordination meetings with the investigative authorities, engaging also the Prosecutor General's Office and the National Agency for Corruption Prevention, to establish protocols for collecting such information and ensuring their effective operation. The meetings will be used to raise awareness about relevant</p>	<p>Throughout Program implementation</p>		<p>MoE, implementing agencies</p>

Risk	Mitigation action	Timing	Type of action (PAP, DLI)	Responsibility
	<p>authorities' roles in preventing and detecting fraud and corruption with the Program's funds and seek solutions to improve prevention and detection.</p> <p>Initiate amendment of the State Anticorruption Program for 2023-2025 to reflect these mitigation actions.</p>			
<p>Insufficient knowledge of Bank's Anticorruption rules and procedures</p>	<p>Dissemination of official instruction together with updated lists of the debarred and temporarily suspended firms and individuals among implementing agencies. MoE and the NACP will conduct annual meetings with the anticorruption officers (authorized officials) of the implementing institutions to discuss dissemination and compliance with the Bank's Anticorruption rules.</p>	<p>Recurrent: quarterly throughout Program implementation</p>	<p>PAP</p>	<p>MoE</p>
	<p>Joint trainings with NABU/INT on Bank's Anticorruption rules and procedures for program implementing agencies</p>	<p>Recurrent: semi-annually throughout Program implementation</p>	<p>PAP</p>	<p>WB, NABU, MoE</p>
<p>Timely and appropriate action are undertaken to investigate fraud and corruption allegations.</p>	<p>Share information/report on corruption allegations with the World Bank immediately when identified and a consolidated bi-annual report describing the details of the reported</p>	<p>Immediately when allegations are reported/ received.</p> <p>Bi-annually for consolidated report</p>	<p>PAP</p>	<p>MoF, MoE</p>

Risk	Mitigation action	Timing	Type of action (PAP, DLI)	Responsibility
	allegations and actions taken			

INTERGRATED FIDUCIARY RISK RATING

Key Risks Identified	Likelihood of Risks Materializing	Impact on Achievement of PDO	Risk Rating	Area of FSA
1. Insufficient state budget allocation	Substantial	High	Substantial	Planning and Budgeting
2. Delays in the release of funds to the implementing entities	Moderate	High	Substantial	Funds flow
3. Lack of internal audit reviews conducted for the program	Substantial	Moderate	Moderate	Internal controls

Section 5: Implementation Support measures and Key Performance Indicators

136. The proposed fiduciary implementation support includes:
- Work with the entire team to review implementation progress, examine the achievement of the program results and implementation of proposed action plan;
 - Work with the team to assess the timeliness and adequacy of the program funds appropriation as approved budget. This will be done annually as well as during interim budget steps;
 - Continue assess and monitor the performance of the financial management and procurement systems including with use of below procurement Key Performance Indicators (KPIs) under the Program and provide suggestions for enhanced efficiency and effectiveness;
 - The KPIs will be reflected in the Program's Progress Reports KPIs monitoring procedures will be reflected in the POM, and will also be subject to review and confirmation by the Program auditors;
 - Monitor implementation of the application of the PforR Anti-corruption Guidelines by Anti-corruption specialist including review of semiannual reports and joining supervision missions once a year.
 - Monitor the PforR financial statement reporting process and as advise the Implementing Institutions as may be necessary;
 - Agree on a PforR audit TOR, help the MOF/MoE liaise with auditors, review audit reports including procurement transactions audited, and monitor that key audit findings and weaknesses receive appropriate and timely corrective actions by auditees;
 - Monitor changes in fiduciary risks of the program including changes in the legislation, and as relevant, compliance with the fiduciary provisions of the legal covenants;
 - During supervision mission guide the clients to resolve implementation issues related to procurement processes and contract management;

Procurement KPIs:

- % of procurement completed;
- % of procurement (by value) following open tender procedure;
- Average number of bids received;
- Volume of complaints received.

Financial management KPIs

- % of annual actual financing of the budget lines that are part of the Program, compared to the planned financing of these budget lines;
- Accounts payable for the Program budget lines at the end of reporting period;
- % of such accounts payable at the end of reporting period to the annual financing;
- Average amount of days required for the State Treasury to execute payments in the Program budget lines;
- Timeliness of the audit report submission, nature of audit opinion on Program financial statements and timeliness in addressing audit findings.

Section 7: Fiduciary Action Plan

Action Description	Responsibility	Recurrent	Frequency	Due Date	Completion Measurement
Procurement Plans published regularly with default competitive methods indicated for the Program procurement activities	MoE	MoE	On semi-annual basis and if any change occurs in the Program’s procurement activities	Semi-annual	Program Progress Report including procurement KPIs results.
Progress Report should provide the list of procurements completed in each year by type and amount (indicating the % use of competitive methods and direct contracting), participation rates, # of complaints and	MoE	MoE	Progress report	Semi-annual	Program Progress Report.

contracts completed. Any procurement training provided.					
Program progress report should confirm that no contracts has been awarded to a suspended or debarred firm.	MoE	MoE	Progress report	Semi-annual	Semi-annual Program Report
Information on implementation of each budget line is submitted regularly to the Department responsible for the Program implementation and PIU	MoE, implementing agencies	MoE	Quarterly	Quarterly	Consolidated Interim Financial Reports
Adequate interim financial reporting is produced and submitted timely to the World Bank	MoE, implementing agencies	MoE	Quarterly	45 days after end of each quarter	Consolidated Interim Financial Reports
Audit of the Program consolidated financial statements is carried out and submitted timely	MoE	MoE	Yearly	9 months after end of each calendar year	Audit report on the Program financial statements
IT solution is developed or customized to support accounting and	MoE	MoE	Ongoing	Ongoing	Reporting is produced using the IT solution

reporting under the Program					
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