Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 27-Apr-2022 | Report No: PIDA34032

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Ukraine	P178946	Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EUROPE AND CENTRAL ASIA	18-Apr-2022	26-May-2022	Governance
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ukraine	Ministry of Finance	

Proposed Development Objective(s)

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

Components

Support to government and secondary education wage bill
Audit and administrative expenses

The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.
Yes

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	2,042.00
Total Financing	1,492.00
of which IBRD/IDA	1,492.00
Financing Gap	550.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	492.00
International Development Association (IDA)	1,000.00
IDA Credit	1,000.00

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

Russia's invasion of Ukraine on February 24, 2022 is having devastating economic, social and poverty consequences on a country that was already one of the poorest in Europe and Central Asia (ECA). Prior to the onset of war, the average Ukrainian enjoyed broadly the same standards of living – proxied by gross domestic product (GDP) per capita in real terms – as at independence, the result of decades of economic mismanagement, weak institutions, and acute governance challenges, as well as repeated external shocks. Institutional, economic, and social reforms begun after the 2014 Maidan Revolution had begun to yield development and poverty gains. These have, now, been undone by the ongoing war, which has battered the economy. The Office of the United Nations High Commissioner for Human Rights recorded 3,838 civilian casualties in Ukraine as of April 7 (1,611 killed and 2,227 injured). An estimated 4.5 million people have fled their homes to neighboring countries and 7.1 million have been displaced internally as of April 5. Depending on the war's duration, the share of the population living below the actual Subsistence Minimum (the national poverty line) may reach 70 percent in 2022, up from 18 percent in 2021. Families have been separated and thousands of houses destroyed in the war. Substantial damage to infrastructure (especially roads, bridges, and power plants) in key cities has been reported.

The economic impact of the war has been colossal – gross domestic product (GDP) is projected to contract by about 45 percent in 2022 through severe disruption of economic activity and trade. Currently, hostilities are taking place in 10 regions that normally account for around half of Ukraine's GDP. Crisis management policies have staved off an outright macroeconomic collapse. To support the economy and ease pressures on foreign exchange reserves and banks, authorities have imposed capital controls and restrictions on the banking sector, while meeting domestic and external debt obligations. The Government continues making priority social payments, including pensions. These measures have helped to prevent a deeper humanitarian impact and social during wartime. However, if the war continues for much longer, the economic contraction will be much sharper, the poverty impact even worse and the future growth potential of the economy much lower.

As expected, the war is severely straining Ukraine's public finances. Before the escalation of tensions and the onset of war, the fiscal deficit was expected to narrow over the medium term to just under 2.5 percent of GDP by 2024 helped by a recovery in tax revenues (in line with economic recovery from COVID), and a progressively tightening fiscal stance. Since the onset of war, despite cuts in non-priority areas (especially capital expenditures), large social and wage bill spending needs amid sharply declining revenues have opened a large *non-military* fiscal deficit of over 12 percent of GDP in 2022, against the backdrop of diminished market access. Tax revenues, in particular, are being affected by lower economic activity; inability to collect taxes in some parts of the country, tax deferrals announced for key business, suspension of land and municipal taxes for the period of the war, and the shift to a 2 percent turnover tax. With a large fiscal deficit, coupled with a heavy debt redemption profile, Ukraine faces sizable *non-military* financing needs of US$31.4 billion in 2022. Implicit in these estimates is the assumption that the Government will continue to honor its social, pension and wage commitments.

Sectoral and Institutional Context

Unlike in some other countries at war, the central and regional governments in Ukraine continue to play a crucial role in deploying limited resources to ensure continuity of basic services, urgently repairing damaged infrastructure, and performing emergency rescue operations. According to the World Development Report 2011, retaining effective public institutions, fostering accountability, enhancing service delivery, and promoting citizen engagement are necessary for addressing the drivers of fragility.

The Government of Ukraine has remained functional since the beginning of the war; to maintain core government functions it is important to prevent irrevocable damage to institutional and civil service capacity. The Government is in control of key state functions, including making social payments, thereby containing the economic impact of war to the extent possible. The central government agencies and their territorial units continue to ensure that revenues are collected despite war (State Tax Service, Customs Service); manage cash flows, and make payments for pensions, medical supplies, salaries and fuel for firefighters (Ministry of Finance, State Treasury Service); coordinate emergency responses (State Service for Emergencies); coordinate and pay health clinics and hospitals (National Healthcare Service); and ensure the safety of nuclear power stations (State Nuclear Regulatory Inspectorate). In addition, central and regional governments act as a backbone for health, education, social assistance service provision. They continue to provide vital services: for example, helping people file tax returns, apply for social benefits, get birth/death/marriage certificates, etc. They also enable frontline service delivery units in healthcare, education, and other sectors to fulfill their functions through coordination, funding, and regulation.

Education services, one of the essential core functions of government, continue during the war. While the Ministry of Education and Science (MoES) declared a two-week break after Russia's invasion began, lessons have now resumed where possible. According to MoES and regional education authorities, as of April 15, 2022, about 13,866 general schools for students of grades 1-12 (just over 90 percent of such schools which enroll students at primary and secondary levels) had resumed operations and were holding classes either in distance or blended learning formats. Basic education services are carried out by teachers and other education staff assigned to local schools and despite displacement of students and teaching staff, the Government is committed to ensuring continuity of teachers' salary payments. The high degree of internal displacement in Ukraine means that many students and teachers are using distance and blended learning modalities, including the All-Ukrainian Online School platform and other digital communications platforms. Despite the displacement, the Government has guaranteed teachers' right to work remotely (outside of their work premises or the territory of Ukraine), and the Government continues to guarantee salaries for teachers and pedagogical staff to ensure continuity of basic education services during the remainder of the 2021/2022 academic year. Payment of remuneration for teachers and other pedagogical staff is the responsibility of local governments, though the education wage bill is financed mainly by the central government through the education subvention.

The proposed project is to support the continuity of core government functions by financing the wage bill for government employees at the central and regional level and school employees at the local level. The cost of government employees is far larger than revenues and may become more difficult to finance as the war continues. The proposed project aims to finance the wage bill only for a subset of public sector workers i.e., non-security sector government employees and school employees who are integral for ensuring continuity of core government functions and preventing erosion of learning outcomes and preserving human capital.

The project is being processed under the World Bank Policy for Investment Project Financing (IPF), section III, paragraph 12: Projects in Situations of Urgent Need of Assistance or Capacity Constraints and OP 8.00: Rapid Response to Crises and Emergencies. It provides rapid response in support of preserving essential services (OP 8.00 4c) and preserving institutional capital (OP 8.00 4d). As the war continues, the Government needs to ensure continuation of core government functions to provide essential services to the citizens including healthcare, education, tax administration and utilities. Given the severe contraction in economic activity, amid weak tax collection, the Government is faced with difficult financial decisions and tradeoffs for funding critical activities including emergency restoration of critical infrastructure, key social services, and paying out wages and pensions in the near term. The Government thus has requested the Bank's support to ensure timely payment of government employees' wages in 2022.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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

Key Results

Funding the wage bill of central and regional government employees can support sustained civil service capacity to exercise core government functions related to revenue and expenditure management, and the delivery of administrative services, which will in turn contribute to minimized disruptions in service delivery and create a basis for the future Government led recovery and reconstruction. Funding the wage bill of education institutions at the local level can support continuous basic education service provision through blended and remote modalities. Funding of the government wage bill will also allow the Government to continue funding other basic services from its own revenues and funds of other development partners. In addition, given that the Government is a large employer it will also contribute to limiting the expected increase in poverty and ensuring payment of social security contributions from the financed salaries.

The achievement of the development objective will be measured by the following indicators:

a. The extent to which the Government continues to exercise core functions (online filing of taxes, payment of Guaranteed Minimum Income subsidy, issuing birth certificates, online request for housing and utility subsidy).
b. Number of government employees in non-security sectors paid (disaggregated by gender for civil servants).
c. Number of school employees paid (disaggregated by gender)
d. Number of schools that remain operational through distance, blended and/or in-person format

D. Project Description

The Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine project is an emergency operation focused on supporting the Government to maintain core government functions by financing eligible government staff salaries in non-security sectors and schools' staff during March-November 2022. The project will provide partial reimbursement for the payment of the salaries of 171,469 central and regional government employees at a cost of approximately US$165 million (UAH 5 billion) per month and payment of salaries of 518,221 schools' employees at the local level at a cost of approximately US$230 million (UAH 7 billion) per month.

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

The activities supported by the Project are not expected to have any direct adverse social and environmental risks or impacts but take place within a highly volatile context beyond the immediate control of the implementing agency. The Project is expected to bring social benefits directly to the families of government and school employees and ensure continuity of vital government services. However, government and school employees may be working in areas where occupational health, safety and security risks are posed by the Russian military invasion. These are highly contextual and beyond the immediate control of the project and not caused by the activities supported by the bank financing (civil servant salaries for existing positions paid against performance-based disbursement).

E. Implementation

Institutional and Implementation Arrangements

The Implementing Agency for the project is Ministry of Finance of Ukraine, which will appoint a Project Coordinator. A Deputy Minister of Finance will serve as Project Coordinator. The Project Coordinator will oversee project implementation, monitor progress, and ensure prompt delivery and reporting on project indicators. The Project Coordinator will act as a focal point for communication with the World Bank team on project-related issues.

For monitoring, the project will rely on data from the Government of Ukraine. The project would mainly use existing arrangements within the Government of Ukraine, and ongoing coordination within the MoF, with the State Treasury Service and ministries, agencies, and state oblast administrations. The education staff wage bill will be based on the verification coordinated by the MoF based on the Treasury payment data and information on personnel and payroll collected by the MOES. This will also apply to the reporting and accountability framework.

According to the Budget Code of Ukraine, the wage bill is identified as protected budget expenditures. The payroll of government and school employees is managed monthly through the Single Treasury Account hosted by the State Treasury Service, according to the cost estimates of government ministries, departments, and agencies (key spending units) based on an annual budget law. The Treasury reports on actual monthly expenditures are automatically compiled by the government's e-Kazna system with a breakdown by the Key Spending Units.

The project design does not envisage the establishment of a project implementation unit under the MoF. Instead, the International Financial Projects Department of the MoF (IFPD) would provide support to the Project Coordinator. The IFPD will share reports based on the Treasury Data, verified by the MoF monthly. The World Bank will also provide additional project management support to the MoF as may be needed.

The project will be implemented based on a Project Operational Manual (POM) which will be adopted by the MoF before project effectiveness. The POM will lay out the project's overall operating, fiduciary, and decision-making procedures and results monitoring arrangements.

CONTACT POINT

World Bank

Oleksii Balabushko
Lead Governance Specialist

Karlis Smits
Lead Country Economist

Borrower/Client/Recipient

Ukraine

Implementing Agencies

Ministry of Finance
Denis Ulvugin
Deputy Minister of Finance
lmk@minfin.gov.ua

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Oleksii Balabushko Karlis Smits

Approved By

Practice Manager/Manager:		
Country Director:	Arup Banerji	02-May-2022