



The World Bank

Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine (P179456)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 17-Jul-2022 | Report No: PIDA34531



BASIC INFORMATION

A. Basic Project Data

Country Ukraine	Project ID P179456	Project Name Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine	Parent Project ID (if any) P178946
Parent Project Name Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine	Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 15-Jul-2022	Estimated Board Date
Practice Area (Lead) Governance	Financing Instrument Investment Project Financing	Borrower(s) Ukraine	Implementing Agency Ministry of Finance

Proposed Development Objective(s) Parent

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

Components

Social Assistance and Pensions
Healthcare and First Responders
Support to government and school employees wage bill
Audit expenses

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	5,600.00
Total Financing	4,500.00
of which IBRD/IDA	0.00
Financing Gap	1,100.00

DETAILS

Non-World Bank Group Financing

Trust Funds	4,500.00
Trust Funds	4,500.00

Environmental and Social Risk Classification
 Substantial

B. Introduction and Context

Country Context

1. **Russia’s invasion of Ukraine on February 24, 2022 has had devastating economic, social and poverty consequences, with a GDP decline of 45 percent projected for 2022.** Data indicate that the economy shrank by 19.3 percent (quarter-on-quarter seasonally adjusted) in Q1 of 2022, with steeper declines expected in Q2. With the conflict continuing, public finances remain under severe pressure; monthly tax revenues have dropped by nearly half relative to pre-war levels, even as spending needs have sharply increased. The government’s wage and social expenditures remain a key lifeline for the population, nearly one third of which has been displaced by war and whose livelihoods have been affected by the sharp decline in economic activity and accelerating inflation (which reached 18 percent year-on-year in May). The parent project already envisioned the need to continue supporting Ukraine over a sustained period given that available fiscal resources are insufficient to cover current expenditures in the near future.¹ For the year 2022, General Government’s fiscal revenues are expected to drop by 45 percent. Even if the war was to end relatively soon, revenues are expected to remain depressed for a considerable period. The large amount of infrastructure damage that has been incurred, combined with the loss of jobs and livelihoods, and large numbers of displaced people will likely lengthen the time required for a full economic recovery.
2. **This Project Paper seeks the approval of the Executive Directors to provide Second Additional Financing (Second AF) in the amount of US\$4.500 billion to Ukraine for the Public Expenditures for Administrative Capacity Endurance (PEACE) Project.** The Second AF will be funded by an expected US additional contribution to the PEACE MDTF (MDTF2) of US\$4.5 billion, authorized by the ECAVP.
3. **The original project is a US\$1,492 million Investment Project Financing (IPF), financed by a EUR 946.6 million (US\$1 billion equivalent) non-concessional IDA credit and EUR 465.96 million (US\$492 million equivalent) IBRD loan, guaranteed by the Netherlands, Latvia, Lithuania and the United Kingdom.** The project was approved by the Executive Directors on June 7, 2022, with a closing date of March 31, 2023. The

¹ See paragraph 25 of the Parent Project Appraisal Document (Report No. PAD5024).

Project became effective on June 18, 2022. The Project Development Objective (PDO) is to contribute to sustaining the government administrative and service delivery capacity to exercise core government functions at the national and regional levels. A Project Operation Manual (POM) has been developed, which defines responsibilities, eligibility and procedures related to implementation of the project in line with all applicable World Bank policies. Progress towards achievement of the Project Development Objective (PDO) and Implementation Progress (IP) are both rated Satisfactory in the second ISR of the Parent project (July 6, 2022). All other ratings are satisfactory. US\$472 million equivalent was disbursed from the loan, and US\$22 million equivalent was disbursed from the credit. The first Additional Financing was approved on June 26, 2022, for US\$1.3 billion of grant funding and is fully disbursed.

Sectoral and Institutional Context

- 4. 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 critical public services, swiftly repairing essential infrastructure, and performing emergency rescue operations.** The Government remains in control of key state functions, including making social payments, thereby containing the economic impact of the war to the extent possible. The central government agencies and their territorial units continue to ensure that revenues are collected despite the 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, and social assistance service provision. They continue to provide vital services: for example, helping people file tax returns, apply for social benefits, obtain birth/death/marriage certificates and others vital documents. They also enable frontline service delivery units in healthcare, education, and other sectors to fulfill their functions through coordination, funding, and regulation.
- 5. In response to the Government of Ukraine (GoU) request of July 7, 2022, the proposed additional financing provides further support to core government functions at the national and regional levels.** The original project and the first AF provided funding for the wage bill of non-security sector government employees and school employees who are integral for ensuring continuity of core government services (mainly public administration and education services) and preventing erosion of learning outcomes. This second AF will expand this support to cover pensions, social payments and healthcare services that are essential to mitigate the social and economic impact of the war, thus scaling up the parent project and first AF's support to the PDO.

C. Proposed Development Objective(s)

Original PDO

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

Current PDO

No changes are envisioned in the PDO.

Key Results

6. **The results framework of the parent project will not change, however additional indicators will help track new dimensions of sustaining government service delivery capacity and exercising of core government functions.** The government's ability to continue pay social assistance, pensions and provide health and emergency services will be measured by the following indicators:
 - Pensions paid on time. This indicator will be added as PDO Indicator to measure the government's performance in making on-time pension payments (i.e., within the month when pensions are due).
 - Social payments paid on time. This indicator will be added as Intermediate Result Indicator to measure the government's performance in making on-time eligible social payments (i.e., within the month when payments related to the identified social programs are due).
 - Number of health service providers operational under the PMG (baseline 2791 – target 2500 (allowing for potential damage to healthcare infrastructure). This indicator will be added as Intermediate Result Indicator to measure the ability of the government to continue to provide healthcare services.
 - Salaries of SES staff paid on time. This indicator will be added as Intermediate Result Indicator.

D. Project Description

7. **This second AF will expand this support of the Project to cover pensions, social payments, healthcare and emergency services that are essential to mitigate the social and economic impact of the war, thus scaling up the parent project and first AF's support to the PDO.** The Second AF will partially cover the following government expenditures during March onwards.
8. **The Second AF will add two additional components to the parent project.** – Component 1 covers the expenditures of the Parent Project and the first AF, on wages of government and school employees; the new Component 2 will cover the pensions and social assistance payments; and the new Component 3 will cover the payment of healthcare workers' wages and first responders' salaries. The Second AF will only support Components 2 and 3.
9. **Component 2. Social Assistance and Pensions.** The Second AF will partially cover the following government expenditures from March 2022 onwards:
 - (i) **Pensions.** The project will support the part of pension payments that is funded by transfers from the central government budget. The transfer from the budget to the Pension Fund includes pension top ups for persons with disabilities, pensioners who have dependent children, persons with disabilities war veterans, families of deceased war veterans, those who suffered from the Choernobyl catastrophe, miners, compensation for lower social security payment from the simplified tax system, and compensation for pensioners who receive less than a minimum pension. The overall amount of budget transfer to the Pension Fund is estimated to be at one third of the overall pension bill and as explained above, mainly

funds the most vulnerable pensioners.

(ii) **Social assistance.** The Second AF will support payment of GMI, HUS and programs providing social assistance to persons with disabilities, as well as the program for IDPs. The Second AF will cover government expenditures for these programs from March 2022. On social assistance for persons with disabilities, only 95% of the expenses will be covered to ensure that the financing only covers the share of the program expenditures transferred directly to beneficiaries

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

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

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

E. Implementation

Institutional and Implementation Arrangements

12. **The governance and institutional arrangements are designed to fit the current circumstances by using government processes where possible and ensuring the least additional administrative burden on the Government.** The AF will keep the parent project's arrangements, relying on the existing country system procedures which were deemed as satisfactory before the crisis and have continued to function during wartime. For social assistance, the MoF will reconcile treasury payment data with verification of that social assistance payments and IDP program payments made by the Ministry of Social Policy. For pensions, the verification will only ensure that funds are transferred from the Treasury to the Pension Fund. The Pension Fund will provide a monthly report on all pensions paid in Ukraine. For PMG, the National Health Service of Ukraine (NHSU) will provide information on payments to the healthcare facilities and verify that payments have reached all the facilities. The NHSU will also collect information at the end of each month of salary expenditure of healthcare facilities, which would be a basis for reimbursement. The first verification report for March-May 2022 was submitted by the MoF under the parent project and the first AF and found satisfactory by the Bank.
13. **The MoF will update the Project Operational Manual (POM)** to reflect institutional arrangements and verification mechanisms for new types of eligible expenditures which will be adopted by the MoF before the project's additional financing effectiveness. The POM will lay out the project's overall operating, fiduciary, verification protocols, decision-making procedures, eligibility criteria, and results monitoring arrangements. The POM will be updated within two weeks after the effectiveness of the Second AF.

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APPROVAL

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