



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

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BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Ukraine	EUROPE AND CENTRAL ASIA	P172442	
Project Name	Fiscal Governance in Ukraine		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Governance	Investment Project Financing		6/30/2020
Borrower(s)	Implementing Agency(ies)		
Ministry of Economic Development, Trade and Agriculture of Ukraine	National Agency of Civil Service, Ministry of Economic Development, Trade and Agriculture of Ukraine		

Proposed Development Objective(s)

The Project Development Objective is to support the Government of Ukraine to better manage public resources in three specific areas of intervention including: (i) Launching of a country-wide Human Resource Management Information System (HRMIS); (ii) Reassessing and improving the efficiency of the Public Investment Management (PIM) system; and (iii) Improving the governance of State-owned Enterprises (SOEs). The higher-level objective is to help safeguard Ukraine’s macroeconomic stability.

Financing (in USD Million)	Amount
Total Project Cost	4.41

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

This proposal on fiscal governance (EU4PFM) builds on the successful World Bank engagement in supporting public financial management in Ukraine over the past several years. The continuation of public financial management



reforms is warranted by the macroeconomic context in Ukraine. However, strong fiscal pressures created by a significant increase in public spending, specifically for public servant salaries and pensions, could potentially have a negative effect on the macroeconomic balance — if further structural reforms, including in the PFM area, are not implemented. To maintain the reform momentum in the public administration and public financial management, to ensure coherence and synergy between both reforms, the Bank proposes deepening the engagement for Phase II in the following reform areas: i) Supporting the HRMIS launch, including change management, to the public institutions at the central and subnational tiers of the government; ii) Enhancing the public investment management system; and iii) Supporting better governance and oversight of SOEs.

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

This is a TA project and will be implemented country wide. The territory of Ukraine is equal to 603,7 thsd. sq km or 5,7% of European territory. The climate of Ukraine is temperate continental.

The country consists almost entirely of level plains at an average elevation of 175 meters above sea level.

Mountainous areas such as the Ukrainian Carpathians and Crimean Mountains occur only on the country's borders and account for barely 5 percent of its area.

Over 73,000 rivers flow through Ukraine. Ukrainian rivers mostly belong to the basins of the Black and Azov seas.

From north to south, three main zones of natural vegetation are the Polissya (woodland and marsh), the forest-steppe, and the steppe. Forests cover about 14% of Ukraine's territory. Recreational landscapes occupy an area of 9.4 mln hectares. Approximately 30,000 species of plants grow in Ukraine. The animal life of Ukraine is diverse, with about 350 species of birds, more than 100 species of mammals, and more than 200 species of fish. A network of 11 natural national parks, 4 biosphere conservation areas, 16 wilderness areas, and more than 100 wildlife refuges has been established to protect wildlife.

Ukraine is highly vulnerable to the impacts of climate change and has identified agriculture, water resources, energy, transportation, health, the urban environment and forests, and coastal zone management as key adaptation priorities. Ukraine is at risk of hydrometeorological hazards and natural disasters, with the impacts of climate change making Ukraine increasingly vulnerable to droughts, high temperatures, heat waves, heavy precipitation, mudflows, and floods. The most common natural disasters are associated with heavy rainstorms that may cause mudslides and flooding of large areas of agricultural land, houses, and industrial buildings.

State-owned enterprises remain significant players in the Ukrainian economy. Following the mass privatization campaign in Ukraine during the mid-1990s to early 2000s, a substantial number of large entities changed ownership and created a significant transfer of wealth from the state to a handful of connected insiders — producing few benefits for the privatized firms or for the Ukrainian public. However, even after mass privatization, the SOEs remain a significant contributor to the country's economy in a variety of sectors. The top 100 SOEs generate an equivalent of 17 % of gross domestic product in 2016, and they are responsible for employing over 650,000 people. SOEs operate in vital sectors that are natural monopolies and deliver essential services, such as utilities, health, transportation, finance, and natural resources. At the same time, SOEs mainly in competitive sectors remain highly inefficient, operate at a loss and distort the economy. This has resulted in a lack of competition with private sector entities. More importantly, though, SOEs have been continuously used for rent-seeking, thus lacking political support for any meaningful reform for many years.

The MEDTA, its SOE Reload team, the Secretariat of the Cabinet of Ministers and the Strategic Advisory Group for Supporting Ukrainian Reforms, have worked in cooperation with other counterparts and partners, including the World Bank to develop critical legislation to improve SOE corporate governance practices, promote the transparent



appointment of SOE senior management, and establish supervisory boards with the participation of independent directors. The actual reform implementation remains a significant concern among investors, IFIs and the public. While reaching an important milestone with the recent legislative changes, the reforms need to be implemented to begin to produce tangible benefits for the country’s budget, improve enterprise transparency and increase citizens’ access to better services. Major impediments envisaged for reform implementation include widely spread vested interests, resistance to change from many SOEs, and a low level of transparency.

D. 2. Borrower’s Institutional Capacity

The Recipient-Executed (RE) activities will be implemented by the officials from two counterpart agencies: NACS (Activity B1) and MEDTA (Activities B2 and B3). They will be supported external consultants and other inputs which will be purchased by counterpart agencies based on the World Bank Procurement Regulations. The responsibilities of the two implementing agencies will be spelled out in the Grant Agreement that will be signed between the World Bank and Government. The capacity to perform environmental and social due diligence activities of these two institutions at this stage of project development is not known, - this will be assessed during the project design and capacity building activities will be supported under the project, as needed.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC) Low

Environmental Risk Rating Low

The project environmental risks and impacts are not anticipated, - the proposed activities will not support any activities including civil works which might generate some direct impacts, as well as no TA activities which would relate to development of feasibility studies or business plans that would lead to further investment operations and might indirectly cause such risks and impacts.

Social Risk Rating Low

The main activity under the project is a country-wide rollout of the HRMIS beyond the civil service, as well as for non-civil servant positions within the civil service subject to specific labor and/or payment legislation. The potential plans for extending the HRMIS solution to other public entities or for interoperability with the existing systems of these entities may be driven by the need for data exchange and benefits from economies of scale. However, as indicated in the concept note, such a launch will face significant challenges given that there may be legal and technical limitations including, among others, the costs of additional licenses and adaptations of the HRMIS as needed. This process will provide the comprehensive analyses of staffing, digitization and legal bases of the existing structure of public employment covering the institutions with mixed staffing as well as other public entities which are not part of the civil service system. Hence, there might be some opposition from certain quarters of civil service and other state service staff in streamlining the HR system in the country. The SEP will set out mechanisms to identify and engage with stakeholders to allay such concerns on an on-going basis. Although the project does not envisage any civil works and no risks related to land acquisition and resettlement are anticipated, other risks such as preparation of an inclusive HRMIS engaging all key stakeholders, and other contextual risks might occur. Overall, the Project does not pose any significant social risks associated with ESS2, ESS5, ESS7, the proposed social risk is rated ‘Low’.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

Public Disclosure



B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The Project Development Objective is to support the Government of Ukraine to better manage public resources in three specific areas of intervention including: (i) Launching of a country-wide Human Resource Management Information System (HRMIS); (ii) Reassessing and improving the efficiency of the Public Investment Management (PIM) system; and (iii) Improving the governance of State-owned Enterprises (SOEs). The higher-level objective is to help safeguard Ukraine's macroeconomic stability. No significant environmental and social risks and impacts are anticipated - the proposed activities will not support any civil works which might generate some direct impacts, as well as nor any TA activities which would relate to development of feasibility studies or business plans that would lead to further investment operations and which might indirectly cause such risks and impacts. Respectively, no need for preparing any safeguards instruments to address environmental risks.

Social risks are mainly contextual and ensuring inclusive and systematic development of HRMIS for the country. The Project will also help to improve transparency, accountability and fiscal discipline among SOEs. This project does not envisage any actions that would go beyond building stronger reporting and disclosure practices by SOEs. SOE related activities will be added to the Project wide SEP, complementing the overall stakeholders mapping and planning respective activities.

Areas where "Use of Borrower Framework" is being considered:

Due to discrepancies between requirements of the WB ESSs and National Environmental and Social Assessment laws and regulations, the project will not use Borrower Framework.k.

ESS10 Stakeholder Engagement and Information Disclosure

This standard is relevant. In order to ensure that an inclusive and coordinated approach is taken to stakeholder engagement and project disclosure, the Ministry of Economic Development, Trade and Agriculture (MEDTA) will have to prepare Stakeholder Engagement Plan (SEP). The SEP will be proportional to the nature and scale of the project and associated social risks and impacts. The SEP will be developed and implemented to ensure that stakeholder engagement is conducted on the basis of timely, relevant, understandable and accessible information. The SEP will lay out a strategy to identify and map key stakeholders. MEDTA will also have to ensure that consultations are inclusive and accessible to all the stakeholders and interested parties. SEP will have to be disclosed prior to appraisal and will be updated, as necessary, throughout the project cycle (preparation and/or implementation). A stakeholder grievance redress mechanism (GRM), as part of SEP, will be operationalized for the project to allow for feedback from public/civil service employees in preparing the HRMIS. It will be recommended that MEDTA has a focal point handling proper development and implementation of SEP, as well as ensuring that the GRM is functioning.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions



This standard is relevant. The labor risks are considered limited because all project workers, other than civil servants assigned for project implementation at the PIU, will be hired per the Bank’s procurement guidelines which will help reduce labor risks to a manageable level. It is expected that the following types of workers will be involved: (i) direct workers (ie. Government civil servants and consultants hired for project implementation); and (ii) contracted workers (ie. consultants hired for analytical works, capacity development, and other specific tasks). Primary supply workers and community workers are not relevant to the project. The project will support TA activities only and no physical works or even simple repair will be financed under the project. Labor risks will be addressed through the Recipient’s commitment in the ESCP to comply with the requirements of the ESS2 and the Project Operations Manual (POM) which provides clear steps to ensure compliance. The ESCP will: (1) include commitment of the Grant Recipient to strictly follow the Bank’s guideline on the employment of consultants; (2) require the Recipient to include in the POM measures to ensure compliance with the ESS2, satisfactory to the Bank; (3) which includes grievance mechanisms that the project workers can use if they feel their contractual rights are not respected. The Team will assess Ukrainian labor law during preparation to identify material gaps with the ESS2 relevant to this project and if any found they will be addressed through the ESCP and the POM.

ESS3 Resource Efficiency and Pollution Prevention and Management

As the project will support only TA activities, it is not expected it will generate any issues related to this ESS requirements,

ESS4 Community Health and Safety

As the project will support only TA activities, it is not expected it will generate any issues related to this ESS requirements,

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

As the project will support only TA activities, no issues related to land acquisition or restrictions on land use and involuntary resettlement are expected.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

As the project will support only TA activities, it is not expected it will generate any issues related to this ESS requirements,

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

This ESS is not relevant as no such communities exist in the country.

ESS8 Cultural Heritage

This ESS is not relevant as the project will not support any activities with direct or indirect risks and impacts on Cultural Heritage.



ESS9 Financial Intermediaries

This ESS is not relevant as the project will not use FIs.

B.3 Other Relevant Project Risks

Usual risks related to the operations in Ukraine

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

OP 7.60 Projects in Disputed Areas No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners

There are no financing partners involved

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

The Client will prepare and disclose prior to appraisal Draft Stakeholder Engagement Plans (SEPs) outlining the results of consultations conducted during preparation and the arrangements for engaging with relevant stakeholders during implementation.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

1. Maintain through the whole period of project implementation E&S capacity;
2. Commitment of the Grant Recipient to strictly follow the Bank’s guideline on the employment of consultants including
3. Establish project-level GRM that also be accessible to the project workers.
4. Requirement to include in the Project Operations Manual measures to ensure compliance with the ESS2, satisfactory to the Bank
5. Implement the SEPs.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS 28-Feb-2020

Public Disclosure



IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Ministry of Economic Development, Trade and Agriculture of Ukraine

Implementing Agency(ies)

Implementing Agency: National Agency of Civil Service

Implementing Agency: Ministry of Economic Development, Trade and Agriculture of Ukraine

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

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