



The World Bank

Sixth Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine (P181514)

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 10-Nov-2023 | Report No: PIDA36981



BASIC INFORMATION

A. Basic Project Data

Country Ukraine	Project ID P181514	Project Name Sixth 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 10-Nov-2023	Estimated Board Date 07-Dec-2023
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
Capitalized charges

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	11,363.24
Total Financing	1,346.00
of which IBRD/IDA	1,086.00
Financing Gap	10,017.24



DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	1,086.00
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Non-World Bank Group Financing

Trust Funds	260.00
Trust Funds	70.00
Ukraine Relief, Recovery, Reconstruction, and Reform TF	190.00

Environmental and Social Risk Classification

Substantial

B. Introduction and Context

Country Context

1. **Russia’s invasion of Ukraine imposes a severe humanitarian and economic toll.** As a result of the invasion, Ukraine’s economy contracted by 29.2 percent in 2022. Since then, the economy has started to stabilize, with growth projected at 3.5 percent for 2023. Between February 24, 2022 and April 9, 2023, there were 26,015 civilian casualties (killed and injured) as a result of the invasion according to the Office of the United Nation’s High Commissioner for Human Rights (UNHCR).¹ Russia’s invasion of Ukraine has triggered a large human displacement crisis: the International Organization for Migration (IOM) reports that, as of September 2023, 3.67 million people are displaced within Ukraine and over 8.1 million are displaced abroad.² Poverty in Ukraine has increased from 5.5 percent in 2021 to 24.2 percent in 2022, with 7.1 million additional people pushed into poverty, erasing fifteen years of progress in poverty reduction. Poverty rates in the territories temporarily not under government control and among those most affected by Russia’s invasion have likely increased even more.

2. **Ukraine’s public finances are under severe pressure because the disbursement of external donor financing only partially covers financing needs.** General government expenditure in 2022 accounted for 70 percent of GDP, 30 percentage points more than in 2021, due to a significant decline in GDP and higher public spending to meet security needs and mitigate the humanitarian impacts of the invasion. While Ukraine managed to collect 43.5 percent of GDP in revenues, financing needs reached 35.1 percent of GDP in 2022 (equivalent to US\$53.3 billion), comprising 26.5 percent of GDP to finance the deficit and 8.6 percent of GDP for debt repayment. Financing needs are projected to remain similarly high in 2023 and 2024. Ukraine met its financing needs through assistance from its international partners, domestic borrowing, and the monetization of the residual financing gap. Ukraine will continue to require budgetary financing from donors to ensure provision of key public services and will continue to rely on internal sources to cover military

¹ <https://www.ohchr.org/en/news/2023/09/ukraine-civilian-casualty-update-24-september-2023>

² <https://dtm.iom.int/reports/ukraine-conditions-return-assessment-factsheet-round-4-july-august-2023?close=true>



expenditures.

3. The PEACE Project has provided support to the Government in sustaining its core services and social payments from March 2022 to August 2023. Overall, the number of beneficiaries is estimated to be over 13 million people, including 10 million pensioners, 500,000 education employees, over 140,000 government employees, 56,000 first responders, and over 3 million social assistance beneficiaries and Internally Displaced Persons (IDPs). The Project has allowed ninety-nine (99) percent of pensioners to receive pensions on time. Those pensioners not receiving pensions on time (around 100,000 pensioners) have experienced delays due to security and logistical challenges of the postal service to deliver pension payments in war-affected areas. Over ninety-five (95) percent of social assistance beneficiaries received their benefit payments on time from July 2022 through September 2023. Education services continue to be delivered, with the Ministry of Education and Science (MoES) reporting on September 1, 2023, that 12,930 schools remain open – operating both in person and remotely. A total of 2,306 health service providers remained operational in August 2023. As of October 30, 2023, the salaries of eligible education, government, and school employees have been paid almost in full. Wage arrears remain less than 2 percent of wage bill and are concentrated in territories which are either temporarily not under the Government control or experienced active fighting and where payment systems are down as a result of electricity blackouts. Salaries of eligible government, school, healthcare employees, first responders, pensions and social assistance have been reimbursed in the amount of US\$23 billion equivalent. Eligible expenditures have been covered by the PEACE in Ukraine Project or other development partners from March 2022 to December 2022, and partially covered from January to August 2023.

4. This Sixth AF will scale up support to the Government to sustain service provision over longer period of time, reimbursing up to 100 percent of eligible expenditures incurred by the government. The Sixth AF will cover government expenditures from March 2023 to August 2023. Up to 100 percent of financing under the Sixth AF will be retroactive. The Project is part of the financial support to Ukraine from development partners. The support package for 2023 comprises contributions from the European Union (EU) through a Macro-Financial Assistance (MFA+) instrument, the United States (US) through budget support grants, and the International Monetary Fund (IMF) through an Extended Fund Facility (EFF) program. World Bank support includes a stand-alone Relief and Recovery DPO (P181023) for US\$1.5 billion using IBRD resources (credit enhanced through the Advancing Needed Credit Enhancement for Ukraine (ADVANCE Ukraine) Trust Fund, supported by the Government of Japan), the PEACE project including the Sixth AF, and projects using a framework approach in health (HEAL Project, P180245), energy (RE-POWER Project, P180332), transport (RELINC Project, P180318), and housing (HOPE Project, P181200).

5. Government spending on core public services for the duration of the PEACE Project is considerably larger than the amount of financing available. The Parent Project was designed to provide funding to partially cover the wages of a subset of public sector workers – government and school employees – from March to November 2022 and had identified additional expenditures of US\$550 million. The First AF scaled up funding up to 100 percent of the government and school employees wage bill in March to November 2022. Given the difficult fiscal situation and potential future contributions of development partners to the MDTF, the Second AF identified a financing gap of US\$1.65 billion in eligible expenditures. The Third AF and Fourth AF identified additional categories of expenditures and estimated the financing gap to be US\$6.2 billion and US\$5 billion, respectively. These financing gaps were partially covered by US grants and grants from other countries. The Sixth AF will cover the remaining gap of US\$1.35 billion. However, given the persistent needs, the Sixth AF envisages that the new financing gap of US\$10 billion, which may be covered by future contributions of development partners. The proposed financing gap will contribute to government expenditure program for eligible categories under the project.

6. The Sixth AF will be financed by a loan in the amount of US\$1.106 billion (credit enhanced through the Advancing Needed Credit Enhancement for Ukraine (ADVANCE Ukraine) Trust Fund, supported by the Government of Japan), and



US\$260 million grants from the PEACE MDTFs and Ukraine Relief, Recovery, Reconstruction, and Reform Trust Fund³. The proposed Sixth AF will extend the closing date to June 30, 2025, and enable continuation of support for the existing types of eligible expenditures from the Fourth AF with the exception of health workers. Eligible expenditures include the wage bill of non-security sector government employees, pensions, social payments, and education, and emergency services that ensure continuity of core government functions and mitigate the social and economic impact of the Russia’s invasion of Ukraine. A Level 2 restructuring is proposed to update the project costs and environmental and social safeguard arrangements. No further changes are envisaged to the expenditure categories supported through the Project. The project closing date will be extended by 12 months to June 30, 2025, to allow PEACE to continue channeling donor grant funds beyond the current closing date.

C. Proposed Development Objective(s)

7. **The PDO is the same as for the Parent Project: to contribute to sustaining the government administrative and service delivery capacity to exercise core government functions at the national and regional levels.** The achievement of the PDO supports the Ministry of Finance’s (MoF) objective of stable implementation of the State budget policy. The results framework of the AF is also the same as for the Parent Project. To contribute to sustaining the government administrative and service delivery capacity to exercise core government functions at the national and regional levels

D. Project Description

8. **The Sixth AF will use the design of the Parent Project, reimbursing 100 percent of eligible expenditures, relying on country systems and strengthened social, environmental, and fiduciary arrangements as needed and operable under the prevailing circumstances.** The Sixth AF will cover US\$1.28 billion of eligible expenditures incurred by the government from March 2023 to August 2023, including: under Component 1, government employees’ salaries, school employees’ salaries and tertiary education institutions employees’ salaries; under Component 2, pensions, social assistance payments, IDP payments, and child and family benefits; and under Component 3, ‘first responders’ salaries. The Sixth AF will finance eligible government expenditures based on government delivery systems as detailed in the Project Operational Manual of the parent project, revised to reflect changes for each AF. For the sixth AF, the POM will be updated within one month of effectiveness of the Sixth AF loan agreement.

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50

No

Projects in Disputed Areas OP 7.60

No

³ Ukraine Relief, Recovery, Reconstruction, and Reform Trust Fund donors include Austria, Belgium, Canada, Iceland, Japan, Latvia, Lithuania, Netherlands, Norway, Republic of Korea, Sweden, and Switzerland. For more information: <https://www.worldbank.org/en/programs/urtf>



Summary of Assessment of Environmental and Social Risks and Impacts

9. **Social and Environmental risks are rated Substantial.** Project activities are not expected to have any direct adverse environmental and social risks or impacts. The social and environmental risk is Substantial given potential for community and worker health and safety incidents associated with exposure to fighting, and aerial bombardment during the delivery of the social services supported by the Sixth AF and other associated risks. Some services will require participants to attend in person activities and essential workers to staff their places of employment and conduct outreach activities, potentially increasing their risk of exposure to attack especially in eastern parts of the country. These risks increase the likelihood that vulnerable groups and individuals who may be eligible to receive services do not seek them out for fear of exposure to war related harm. These risks are beyond the control of the project and not caused by the activities supported by the Bank financing. Preventative measures are described in the project's Environmental and Social Commitment Plan (ESCP) and Project Operations Manual (POM). These include principles for information disclosure and consultation, and grievance redress mechanism (GRM). The Stakeholder Engagement Plan (SEP) will be updated to cover activities under the Sixth AF and to define principles for information disclosure and opportunity for feedback and access to redress for complaints and concerns.

E. Implementation

Institutional and Implementation Arrangements

10. **The Ministry of Finance of Ukraine is the Implementing Agency for the project.** The Project Coordinator (Deputy Minister) oversees project implementation, monitors progress, and ensures prompt delivery and reporting on project indicators. The Project Coordinator also acts as a focal point for communication with the World Bank team on project-related issues.

11. **The governance and institutional arrangements of the PEACE project use government processes where possible and minimize the additional administrative burden on the Government.** The Parent Project and five AF operations have performed well during their short duration. The Sixth AF will extend the Project closing date until June 30, 2025 for eligible expenditures using the same verification and funds flow arrangements. The Sixth AF will use the implementation arrangements for project management, financial management and audits established under the parent project, and the enhanced implementation arrangements described in Box 1. Verification reports for March 2022-February 2023 were submitted by the MoF under the parent project and the first, second, third and fourth AF. These reports were found satisfactory by the Bank. One of the lessons learned during implementation is that the absorption of project financing was a challenge for an already overstretched government during wartime due to the extensive verification required. Short-term experts provided capacity enhancement support to the government for coordination, reporting and verification for the parent project and subsequent AFs, and will continue to do so for AF6.

12. **The two Agreed Upon Procedures review conducted so far by the Bank under the Enhanced Implementation Arrangements (Box 1) found no significant deviations in expenditures and confirmed that controls for projects funds adequate.** The first review focused on eligible expenditures on pensions, government and school employees' salaries, and support to IDPs reimbursed from June to November 2022. The second review covered expenditures reimbursed from November 2022 to April 2023 on additional categories including social assistance programs, and healthcare employees and first responders' salaries. These reviews confirmed that expenditure controls were overall functional and identified



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minor discrepancies and areas where strengthening of controls and implementation support would be required once the war is over, such as completion of automation of Pension Fund system.

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APPROVAL

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