



# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 22-Oct-2020 | Report No: PIDISDSA29955

**BASIC INFORMATION****A. Basic Project Data**

Country Ukraine	Project ID P174436	Project Name Second Additional Financing for COVID-19 Response under Social Safety Nets Modernization Project	Parent Project ID (if any) P128344
Parent Project Name Social Safety Nets Modernization Project	Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 21-Oct-2020	Estimated Board Date 26-Nov-2020
Practice Area (Lead) Social Protection & Jobs	Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance of Ukraine	Implementing Agency Ministry of Social Policy of Ukraine

## Proposed Development Objective(s) Parent

The objective of the Project is to improve the performance of the Borrower's social assistance and social services system for low-income families.

## Proposed Development Objective(s) Additional Financing

Improve the performance of Ukraine's social assistance and social services system for low-income households and provide income support to households affected by the economic impact of the COVID-19 pandemic

## Components

Component 1. Improving social assistance provision to the most vulnerable

Component 2. Supportive Investments for Institutional Strengthening for Administration of Social Assistance and Social Services

Component 3 Supportive Investments for Increasing Provision of Family-based Care to support orphans, children deprived of parental care, disabled children and vulnerable families in selected Oblasts

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	300.00
<b>Total Financing</b>	300.00
<b>of which IBRD/IDA</b>	300.00
<b>Financing Gap</b>	0.00



DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	300.00
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Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The COVID-19 pandemic that has been spreading rapidly across the world since December 2019 has hit Ukraine’s economy hard, especially since it had been suffering the impact of sluggish external demand and a decline in global steel prices even before the outbreak of the pandemic in January-February 2020.** Preliminary figures indicate that the economy contracted at the steepest rate in five years in the second quarter of 2020 due to the COVID-19 outbreak. The GDP plunged 11.4 percent year-on-year in the second quarter 2020, following the first quarter’s 1.3 percent decline and marking the sharpest contraction since the second quarter of 2015. The drop is due to domestic and external shocks. Domestically, hard, but necessary, domestic lockdown measures reduced activity in the retail, gastronomy and transport sectors. Externally, exports and remittances dropped as other countries were also sharply affected by the pandemic. On the positive side, government support to households and businesses, introduced in May 2020, combined with monetary stimulus, should help to mitigate the downturn somewhat. However, the second wave of virus infections recorded in July 2020 after the cancelation of the lockdown, clouds the recovery outlook.

2. **As of October 21, 2020, the COVID-19 outbreak has resulted in 315,826 confirmed coronavirus cases and 5,927 deaths in Ukraine, however, the pandemic is far more than a health crisis, as it is affecting society and economy at their core.** In addition to the immediate impact of a pandemic on health outcomes and, tragically, on lives, it is now clear that Ukraine will be adversely impacted by the emerging economic crisis through several channels. *First*, disposable incomes and consumption suffered from the sudden necessary restrictions, including the closure of restaurants, cafes, shopping/entertainment centers and the halt to air, rail, bus passenger transport. *Second*, lower remittances due to weaker



economic activity in Poland and other EU countries have adversely impacted household consumption. *Third*, lower commodity prices will impact Ukraine's exports. The crisis has already resulted in a rapid deterioration in employment rates and increase of poverty, and permanent loss of human capital. The growth outlook for Ukraine in 2020 remains highly uncertain and will depend on the duration of the health crisis, progress on major pending reforms, and the ability to mobilize adequate financing to meet major debt repayment needs. A key factor will be the ability of the economy to rebound once the health crisis subsides. According to the IMF forecast released in April, Ukraine's GDP is expected to drop by 7.7 percent in 2020<sup>1</sup>. On the whole, Ukraine is witnessing a rapid decline in consumption and purchasing power due to widespread layoffs and a fall in remittances.

3. **The Government announced a lockdown mid-March 2020 that lasted through June 2020, but while it contained the spread of the virus, the lockdown has resulted in a sharp increase in the total number of unemployed.** Since the beginning of 2020 the number of registered unemployed increased sharply reaching 478,000 as of September 1, 2020, which is 73 percent more than on the same date in 2019. From March 12 to August 31, 2020, 444,000 Ukrainian citizens received the status of unemployed and became eligible for unemployment benefits. At the same time, the number of vacancies in the economic downturn decreased to 58.6 thousand (as of the end of May), which is 64 percent less than at the end of May last year. Accordingly, the number of applicants for one vacancy decreased to three people.

4. **While poverty declined significantly in recent years, this trend will be reversed as a result of the economic contraction resulting from the COVID-19 pandemic.** The recovery of consumption over the last three years helped reduce poverty. In 2017-2018, consumption growth was supported mostly by the significant increases in public sector wages and pensions, while in 2019 the growth in real wages was mostly driven by the private sector due to the labor market pressures associated with outmigration. Real wages grew 9.8 percent in 2019, while remittances, which have also played a major role in supporting consumption growth, increased by 12 percent. The unemployment rate gradually declined from 9.5 percent in 2017 to 8.2 percent in 2019. As a result, moderate poverty (World Bank's national methodology for Ukraine) declined from a peak of 27 percent during the crisis in 2015 to 19.9 percent in 2018 and an estimated 18 percent in 2019.<sup>2</sup> With labor incomes, employment, and remittances impacted sharply by the COVID-19 crisis, poverty is projected to increase sharply in 2020. Simulations of the effects of the income and price shocks as a result of the pandemic show that poverty in Ukraine could increase by between 4 and 8.7 percentage points, reaching nearly 25 percent in 2020. According to the World Bank estimates 60 percent of the people who may fall into poverty as a result of COVID outbreak do not currently benefit from any existing social protection program. To help the newly poor the GoU decided to extend the existing pro-poor programs and introduce temporary benefits for the temporary poor.

5. **In response to the pandemic, Ukraine is increasing its prevention and preparedness regime, aiming to avoid the virus' spread.** Some of these measures, including quarantine, restrictions on international travel, disruption of supply chains, and resultant economic downturn, will directly affect the poor and could send large numbers of people into poverty. As such, the chronic and temporary poor will require additional social assistance support to mitigate the downturn created by the virus. It is hence critical for the Government to increase efforts to ensure that the most vulnerable are protected and

<sup>1</sup> IMF, World Economic Outlook, April 14, 2020

<sup>2</sup> Figures for 2018-19 are projected based on 2018 Household Budget Survey data.



supported throughout the crisis. Well-functioning social protection system and programs are essential to protect all households from vulnerability to shocks and risks.

6. **Ukraine has introduced temporary cash benefits and expanded the existing ones.** The interventions implemented under the Government's COVID-19 Emergency Response Plan during March-May 2020 included: (i) introducing temporary measures, including one-off cash transfers to vulnerable groups; (ii) scaling up activities aimed at increasing coverage of the poor by the GMI Program, including relaxing eligibility rules to increase the duration of payments and to allow individuals who have lost their jobs during quarantine, informal sector workers and returning migrants to be eligible for the GMI benefit; (iii) simplifying administrative requirements to enroll in the HUS program; temporarily increasing the HUS benefits to mitigate the impact of increased utilities' expenses during the quarantine and removing restrictions that prevent enrollment in the HUS for individuals who lost their jobs as a result of the quarantine; (iv) improving unemployment assistance in terms of benefit amount, coverage and administration, as well as adjusting activation practices; and (v) introducing remote accessibility to benefits and in-kind assistance to prevent in person interaction to strengthen remote access to payments, improve financial inclusion of the poor and vulnerable and build up payment infrastructure.

#### Sectoral and Institutional Context

7. **Ukraine operates a complex social assistance system that redistributes a large share of its gross domestic product (GDP).** In 2018, the Government of Ukraine (GoU) spent around 4 percent of GDP on social assistance programs, a similar proportion to those in much richer countries such as Germany and the Netherlands and far above the average for the Eastern Europe and Central Asia region. Overall spending on social assistance rose from 3.4 percent of GDP in 2014 to 4.4 percent of GDP in 2017, due to the significant expansion of assistance under the Housing and Utilities Subsidy (HUS)<sup>3</sup> program which increased from 0.2 percent of GDP in 2014 to 2.3 percent of GDP in 2017. The big increase in the HUS expenditures during 2015–2017 was essential for supporting a major reform to eliminate universal energy subsidies, and it buffered the impact of unprecedented utility tariff increases. However, as a result, the system became lopsided, as the HUS program became the country's largest social assistance program, reaching close to half of the country's households in 2017 (6.5 million).

8. **During 2014–2018, Ukraine's social assistance system covered about 60 percent of the population, and social safety net (SSN) coverage of the poorest quintile<sup>4</sup> increased from 60 percent to about 80 percent of the population.** Despite its high spending, overall high coverage, and improved coverage of the poorest, the system does not reach about 20 percent of the population in the poorest quintile because of the limited coverage of the GMI Program and the prevalence of the HUS program.

9. **The targeting accuracy of Ukraine's social assistance has remained mostly the same during 2014–2018, ranging from 31 percent in 2016 to 33 percent in 2018.** Yet only 33 percent of Ukraine's SSN is reaching the poorest quintile. The GMI Program has the highest targeting accuracy with 72 percent of the total program spending going to the poorest 20 percent. However, the GMI Program's coverage of the total population is low despite the growth in its coverage during 2014–2016. On the contrary, the HUS

<sup>3</sup> HUS is a program of subsidies delivered as discounts on the utility bills.

<sup>4</sup> Quintiles are based on per adult equivalent consumption



program, after rapid expansion and improvements, is not well targeted. Its targeting accuracy improved from 23 percent in 2016 to 30 percent in 2018 but remains far below the targeting accuracy of the GMI Program and even below the targeting accuracy of family and child benefits. Thus, not all programs are equally efficient in reducing poverty and inequity, and there is room for improvement. Considering the size of the HUS in overall SSN spending, any improvement in its targeting accuracy will lead to improvement in the overall targeting accuracy of SSN transfers.

10. **The large budget devoted to social assistance in the country implies that there is a significant opportunity to redirect resources and rationalize the system in a way that increases its impact on poverty.** An improvement in targeting can redirect resources to substantially improve the poverty situation in the country. Central to this finding is the unbalanced nature of the system, with the HUS, accounting for 48 percent of the overall SSN budget, against 8.2 percent of the GMI Program (2018).

11. **Since 2018, the GoU has been taking steps to improve the targeting accuracy of the HUS and gradually contain the program's costs while expanding the Guaranteed Minimum Income (GMI) program that has shown the best results in targeting the poor.** The scaling down of the HUS led to a reduction in overall social assistance spending from 4.4 percent in 2017 to 3 percent in 2019. A further expansion of the GMI Program, accompanied with modernization of the overall safety net, is intended to move the system toward a new equilibrium characterized by much more effective welfare support to the population, the consumption of fewer fiscal resources, and the promotion of positive behavioral incentives. Several measures are planned to improve efficiency and targeting: (i) modifying HUS eligibility rules to reduce the number of beneficiaries who are granted benefits by local authorities on an exceptional basis; (ii) eliminating the HUS' "cashless monetization" scheme, whereby the full amount of the subsidy was transferred to utility companies by the state saving bank, while beneficiaries had to pay the balance of their utility bills; (iii) carrying out a further inspection of the HUS program using a beneficiaries risk profiling approach in 2023 after changes have been introduced to ensure that resources reach intended beneficiaries; and (iv) introducing remote accessibility to all social assistance benefits and direct deposits of cash transfers through beneficiaries' bank accounts.

12. **The World Bank has been supporting improvements in Ukraine's social assistance system.** The ongoing Social Safety Nets Modernization Project (SSNMP, the Project) that aims to improve the performance of the borrower's social assistance and social services system for low-income families is financed by an IBRD loan of US\$300 million, approved by the Board of Directors on July 4, 2014. An Additional Financing (AF) in the amount of US\$150 million was approved for the SSNMP on April 30, 2020. This AF is providing further support for the social safety net reforms. The AF is disbursing based on the achievement of the Performance-Based Conditions (PBCs) which capture progress around three important areas of SSN reform, namely: (i) improving the efficiency and targeting of state support to the poor and vulnerable through the expansion of the GMI Program to the poor and the downscaling of the HUS program for the non-poor; (ii) promoting the introduction of complementary social and activation services for GMI beneficiaries to escape from the poverty trap; and (iii) rationalizing benefits to improve their targeting and administrative efficiency. The AF, which became effective on May 20, 2020, supported part of the Government's Emergency Response Plan by providing US\$50 million to help finance the costs associated with the social protection response to the COVID-19 epidemic through the additionally introduced PBC 21 (*Introduce temporary social assistance measures to mitigate the impact of COVID-19 pandemic on the welfare of vulnerable groups*). Implementation of the SSNMP, including its first AF is Moderately Satisfactory, and the Project is on track to meet its Project Development Objective.



13. **To respond to the COVID-19 pandemic and limit its social and economic impact, the new Government that took office in March 2020 launched a comprehensive relief and stimulus package.** On March 26, 2020, the Ukrainian Parliament adopted the Law on COVID-19 responses, followed by the adoption of the 2020 Budget amendment. The introduction of the measures was swift, time-bound, and transparent. The measures aimed at dealing with the health emergency, while supporting household incomes and firms. The legislation provided direct support to the health sector and introduced social protection measures to protect the newly poor.

14. **The Government’s COVID-19 Emergency Response Plan includes the following urgent social protection response:** (i) additional social assistance to chronic poor using the existing social assistance programs; (ii) temporary measures, including one-off cash transfers to vulnerable groups; (iii) improvement of unemployment assistance in terms of benefit amount and coverage; (iv) scaling up activities aimed at increasing coverage of the poor by a GMI Program; and (iv) introducing remote accessibility to the benefits to prevent in person interaction.

15. **The financing needs for implementation of social protection measures of the Government’s COVID-19 Emergency Response Plan are high.** The overall cost of these measures, which are intended to provide temporary relief to mitigate the impact of the crisis on the welfare of relatively poor households and vulnerable subgroups, is estimated to be around US\$1 billion. The Government of Ukraine has requested the scaling up of the ongoing SSNMP through a second Additional Financing in the amount of US\$300 million (AF2) to address the immediate economic crisis through co-financing their COVID-19-related social protection mitigation measures.

### C. Proposed Development Objective(s)

#### Original PDO

16. The objective of the Project is to improve the performance of the Borrower's social assistance and social services system for low-income families.

#### Current PDO

17. The PDO would be expanded and its wording adjusted to reflect the provision of emergency transfers to the most vulnerable groups affected by the COVID-19 pandemic to read as follows: ‘improve the performance of Ukraine’s social assistance and social services system for low-income households and provide income support to households affected by the economic impact of the COVID-19 pandemic.’

#### Key Results

18. **The key results expected to be achieved under the AF2 are as follows:**

- (a) increased coverage of the poor by a GMI program;
- (b) improved targeting accuracy of the HUS program and monetization of the benefits;
- (c) scaled up unemployment benefits and assistance to increase the benefit amount and coverage;



- (d) strengthened capacity of the Social Inspectorate to ensure reducing error and fraud in the social assistance system
- (e) extended remote accessibility to most SSN benefits so as to not require in person interaction and application of digital solutions for electronic payment of benefits introduced.

#### D. Project Description

19. **The SSNMP's original components will remain unchanged in AF2<sup>5</sup>.** The full AF2 amount of US\$300 million will be allocated to Component 1 to finance: (i) expansion of the GMI Program; (ii) provision of temporary income support to households and individuals affected by the COVID-19 pandemic; and (iii) technological improvements in enrolment, benefits delivery systems and fraud and errors control in social assistance. The funding under AF2 will be disbursed upon achieving seven PBCs, as described below.

#### **Component 1: Improving social assistance provision to the most vulnerable (AF2 US\$300 million equivalent)**

20. **This component will continue to support the Government's SSN reform agenda within the same two results areas as in the parent project,** namely by: (i) accelerating poverty reduction through: (a) the gradual expansion of the GMI program, and (b) introduction of emergency cash transfers to individuals and households who have lost their jobs or income sources as a result of the COVID-19 pandemic, (ii) strengthening SSN administration and delivery systems to improve response to future shocks. The AF2 will be used to provide the financing of payments under the GMI Program that is selected as the Eligible Expenditure Program (EEP) in support of the expansion of the GMI Program from 2 percent of population (about 260,000 recipient households) in December 2019 to 5 percent of population by December 2023 by disbursing loan funds against the achievement of seven PBCs that are aligned with two results areas.

21. **The proposed AF2 will support retroactive financing for Component 1 as governed by paragraph 12 of the World Bank policy for Investment Project Finance (IPF).** The following provisions will guide the use of this procedure: (i) the total amount of retroactive financing is envisaged for up to 40 percent of the loan amount in accordance with provisions for Projects in Situations of Urgent Need of Assistance or Capacity Constraints; and (ii) funding will be made available for eligible payments made by the Borrower on or after January 1, 2020 up till the date of signing of the Loan Agreement given that the MoSP has already started making the payments to GMI beneficiaries which are estimated to reach approximately US\$340 million by the signing date. Submission of a verification review under Terms of Reference (TOR) reviewed and cleared by the World Bank to confirm that the payments have been made (including a GMI Program inspection report confirming the accuracy of payments and eligibility of beneficiaries) is a prerequisite prior to processing the disbursements under retroactive financing in 2020.

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<sup>5</sup> The SSNMP's three components are: (i) Improving Social Assistance Provision to the Most Vulnerable; (ii) Supportive Investments for Institutional Strengthening for Administration of Social Assistance and Social Services; and (iii) Supportive Investments for Increasing Provision of Family-Based Care to Support Orphans, Children Derived of Parental Care, Disabled Children and Vulnerable Families in Selected Oblasts.





22. **The proposed AF2 will finance additional expenditures related to the expansion of the GMI program during 2020-2023 through seven new PBCs (22-28).** Gradual disbursement during 2020–2024 will take place upon the achievement of these PBCs that will be used as additional measure to trigger withdrawals from the loan account for reimbursing the government for self-financed eligible expenditures on GMI Program. The disbursement by the World Bank will be capped by the value of the PBCs even if the reported eligible expenditures exceed the value of achieved PBCs.

23. **The new PBCs are arranged around three important areas of SSN reform in Ukraine that the AF2 is addressing** and include: (i) Improving efficiency and targeting of HUS program to support the poor during the COVID-19 crisis; (ii) providing emergency cash assistance to vulnerable households during the COVID-19 pandemic to escape the poverty trap; and (iii) introducing the remote accessibility to all social assistance benefits and direct deposits of cash transfers through bank accounts to 90 percent of beneficiaries of social assistance and pensions.

24. **PBCs 22 through 25.** Each calendar year during 2020-2024 the GMI expenditures will become eligible for financing under the proposed AF2 after gradually increasing the GMI eligibility income threshold for able to work family members to 25 percent of the Subsistence Minimum (SM) in 2020 to not less than 50 percent of SM in 2023. Thus, each year after the increase in the income eligibility threshold, and thus, the achievement of the PBCs 22-25, the World Bank would disburse the indicated PBC amount after verification of the Government’s expenditures on the GMI program.

25. **PBC 26.** This PBC will support provision of temporary monthly child benefits to children of individual entrepreneurs under 10 years of age for the duration of quarantine plus one month after the official lifting of quarantine measures. The benefits level is equal to subsistence minimum for 2020: UAH 1,779 (US\$66) for children aged 0-6 years and UAH 2,218 (US\$82) for children aged 7-10 years. The Government allocated UAH 1 billion for this program and plans to pay out benefits to 200,000 children from 100,000 families of individual entrepreneurs. PBC 26 will also recognize the payment of unemployment benefits with relaxed eligibility rules to protect those who lost their jobs during quarantine and the COVID-19-related crisis. The objective of this PBC is to ensure the provision of timely support to individuals and households who have been laid off – temporarily or permanently -- because of the lockdown and the lower demand for the products or services of the firms they work for, or the social distance restrictions.

26. **PBC 27.** This PBC will support the set of actions that would seek to strengthen the HUS Program, aiming to increase its efficiency and targeting. Under this set of actions, the AF2 would seek to introduce changes in the HUS eligibility rules to reduce the number of HUS beneficiaries who are granted benefits by the local authorities on the exceptional basis. These changes will help to introduce the uniform rules across Ukraine while incorporating some of the exceptional cases where needed in the overall eligibility criteria, thus increasing the uniformity of the benefits and reducing the time for granting benefits. This PBC would also support introduction the uniform rules for granting and paying the HUS subsidy and privileges, through elimination of the ‘cashless monetization’ scheme<sup>6</sup>. The major risk related to ‘cash monetization’ was potential worsening of payment discipline. This risk was mitigated by introducing

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<sup>6</sup> Under the “cashless monetization” scheme who were granted HUS after January 1, 2019 receive HUS benefits in their state savings bank accounts, and the full amount of the subsidy was transferred to the utility companies by the bank, while beneficiaries had to pay the residual balance only.



sanctions for non-payments including HUS cancellation. The results of 2019 and 2020 heating season revealed that 75 percent of the cash subsidy recipients settled their utility bills in a timely manner, thus the payment discipline was satisfactory. The high payment discipline allowed the GoU to plan elimination of the ‘cashless monetization’ scheme in 2021.

27. **PBC 28.** The proposed AF2 will support introduction of the on-line enrolments for all social assistance benefits through the PBC 28. The GoU already launched the online enrolments for several social assistance and unemployment benefits, and employment-related services, community-based services and application for in-kind assistance, where the enrolment was adjusted to be aligned with quarantine requirements and moved to e-platforms<sup>7</sup>. The proposed AF2 through PBC 28 will also support improving the payment model used to deliver social assistance and pensions by introducing incentives to receive benefits through the banking system. Digitalization of benefits payments through introduction of direct deposits of cash transfers through bank accounts are the ideal mechanism for the payments and beneficiaries should have accounts to receive cash transfers in the bank offices or from ATMs (although this may not be feasible for beneficiaries who live in remote and rural areas, as well as for elderly people). Cash transfers are made directly into individual bank accounts, replacing delivery in cash via the post offices or the bank offices. Payment at home scheme operated by the national postal operator will remain available for beneficiaries with limited mobility who cannot withdraw their payments because of geographical constraints, illness, old age, disability, and so on. Digitizing the cash transfers has the potential to dramatically reduce costs, increase efficiency and transparency, and help recipients build familiarity with digital payments. Digital social payments can also promote financial inclusion and in many cases provide a first account that the beneficiary has in his own name and under his control.

28. **The SSNMP’s Results Framework has been updated to reflect the extension of the Closing Date to September 15, 2024 and the modifications under the AF2 that support further reforms of Ukraine’s SSN.** At the level of PDO indicators, this includes introduction of the PDI related to COVID-19 Crisis Response.

## E. Implementation

### Institutional and Implementation Arrangements

29. **The implementation arrangements under the AF2 will remain the same as those for the SSNMP.** The Ministry of Social Policy (MoSP) will be the main implementing agency. The Deputy Minister of the

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<sup>7</sup> **E-Service online platform**, operated by the MoSP in 2020, allows remote enrollment to: (i) HUS program; (ii) birth grants, however, the remote enrollment is only available for those applicants who have e-signatures, otherwise, potential beneficiaries can apply remotely, but still need to visit the welfare units for signing relevant docs; (iii) temporary social assistance to children of individual entrepreneurs under 10 years old during COVID-19 quarantine. The PES also simplified its administrative procedures for enrollment in unemployment and temporary underemployment benefit programs and moved key employment service operations to e-platforms.

**Integrated Information System Social Community.** The MoSP has recently reported on the progress achieved in launching a new online platform developed for the amalgamated territorial communities (ATC). The Social Community is a client-server web application, which enables communities to enroll their inhabitants in 23 types of social programs, including GMI and HUS. As of April 27, 2020, 246 ATCs submitted their applications to launch the new platform, 215 of them were provided the modules to be installed and 122 ATCs already started to deliver services online.



MoSP will be responsible for overall project implementation and will lead the Project Implementation Unit (PIU) established in the MoSP under the SSNMP to guide implementation and make decisions. The MoSP will maintain the PIU throughout the duration of the project, in a form and with functions, staffing, and adequate resources, all satisfactory to the World Bank and as set forth in the Project Operational Manual (POM). These implementation arrangements have been described in the POM and will be updated for the AF2. External consultants, hired by the MoSP, will provide additional technical assistance and expertise required to implement project activities.

30. **The World Bank allocates responsibilities and appropriate resources to support an effective implementation of the project and provide support to the Borrower** for proper implementation of the Environmental and Social Management Framework (ESMF) in the assessment, development and implementation of project activities to ensure that environmental and social (E&S) risks and impacts are duly addressed. Under the SSNMP the World Bank provides implementation support regarding the E&S performance of the project, which envisages reviewing the Borrower's quarterly project implementation progress reports that include information on compliance of the project with the requirements of the Legal Agreement. The original Environmental Management Framework that was prepared and approved in 2014 for the SSNMP has been updated in 2020 as part of the preparation of the first AF and will undergo another review for this second AF to ensure that COVID-19-related risks are adequately addressed.

#### **F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

The project will be located nationwide. The environmental and social risks resultant from the original project activities are low. The extent and mode of World Bank monitoring with respect to E&S performance is proportionate to the potential environmental and social risks and impacts of the project. The environmental and social performance of the SSNMP is Satisfactory. The potential impacts of the project are predictable, small-scale and manageable. The arrangements related to works under the SSNMP, AF1 and AF2 are as follows: (i) SSNMP: civil works initially anticipated under Component 3 of the SSNMP were dropped under the restructuring of the project. No civil/construction works, or rehabilitation/repair works have been performed under the SSNMP to date. Given that works remain an eligible expenditure category under the Loan Agreement of the SSNMP, the project team may consider the request by the MoSP for minor indoor rehabilitation/repair works in the Ministry's building. However, it was also agreed with the MoSP to postpone any potential requests for these works until the end of the pandemic to avoid risks of COVID-19 exposure. (ii) First Additional Financing (AF1): no civil/construction works, or rehabilitation/repair works are envisaged or to be financed under the first AF, which became effective on May 20, 2020. (iii) Second Additional Financing (AF2): no civil/construction works, or rehabilitation/repair works will be financed under the AF2. The E&S risks resultant from the project activities are Low. The AF2 will expand Component 1 of the SSNMP to provide cash transfers to the poor and vulnerable. The AF2 will have the same environmental category as the original project (Category B). The only Safeguard Policy triggered for the SSNMP (OP 4.01 - Environmental Assessment), will continue to be triggered for the proposed AF2. The Environmental and Social Framework prepared for the original project will be further revised to address the activities under this AF.



**G. Environmental and Social Safeguards Specialists on the Team**

Mariia Nikitova, Social Specialist  
Oksana Rakovych, Environmental Specialist

**SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

There are no potential large-scale, significant and/or irreversible adverse impacts expected as a result of the AF2 project activities. The proposed AF2 will have overall positive social impacts as its interventions will help to strengthen the social protection system to mitigate emergency of and support recovery from COVID-19 crisis as well as to build resilience against future shock. Specifically, the proposed AF2 will co-finance the costs of activities associated with: (i) scaling up activities aimed at increasing coverage of the poor by GMI (Guaranteed Minimum Income) Program; (ii) improving targeting accuracy of the Housing and Utilities Subsidy (HUS) Program and monetization of the benefits; (iii)



scaling up unemployment benefits and assistance to increase the benefit amount and coverage; and (iv) extending remote accessibility to most SSN benefits to prevent in-person interaction and application of digital solutions for electronic payment of benefits. No civil/construction works, or rehabilitation/repair works will be financed under the AF2.

The Environmental Management Framework for the original project was prepared by the client and disclosed in 2014. The ESMF was revised by the client in March 2020 to reflect changes in the project scope envisaged under the first AF, including the elimination of civil works and strengthening mechanisms for grievance handling. It was disclosed by the MoSP and the World Bank in April 2020 in a form and languages (Ukrainian and English) that are understandable and accessible to project-affected individuals and groups and other stakeholders. The ESMF will be further updated for AF2 to ensure that COVID-19-related risks are adequately addressed and: (i) reflect the AF-supported activities (including beneficiary-led activities); (ii) reflect reporting requirements under the Environmental and Social Incident Reporting Tool; (iii) provide guidelines on GRM-handling procedures; and (iv) reflect guidance on COVID-19 component safeguards issues. A precautionary approach will be taken in stakeholder engagement activities to minimize the risk of COVID-19 transmission, following the World Bank's Technical Note: Public Consultations and Stakeholder Engagement in World Bank-supported operations when there are constraints on conducting public meetings. Under the proposed AF2, the project-level GRM will be reviewed and further improvements be made as needed (including grievance mechanisms to address COVID-19 related grievances).

Exposure risk to COVID-19. The safeguard assessment related to activities that would be financed with the proposed AF2 takes into account risks and approaches in place at the time of the preparation of this project, tailored to the operational environment under COVID-19. The assessment and mitigation of these risks will comply with the consultation and public participation requirements of OP 4.01, tailored for the COVID-19 risks and impacts. The project will have to take due note of the COVID-19 related risks, especially health and safety aspects related to project workers. Under the proposed AF2, a guidance note consolidating the advice that has been provided over the past months and best practices on addressing risks related to COVID-19 will be incorporated in the POM for governing the workers' health and safety to ensure that highly adaptive responsive management design, which enables avoiding, minimizing and managing key issues associated with COVID-19, is in place. These improvements will be applicable both to the SSNMP and the AFs. During implementation, the World Bank will perform its due diligence to ensure that the ESMF effectively monitors and manages the environmental and social risks and impacts as well as COVID-19 related risks.

Discrimination and exclusion risk. The following disadvantaged and vulnerable individuals and groups are direct beneficiaries of the SSNMP, AF1 and proposed AF2: poor households, families in challenging circumstances, single parents, families with many children, women-headed households, orphans, children deprived of parental care, children and adults with physical, mental and other types of disabilities, elderly persons and vulnerable pensioners, unemployed, unemployed youth, women-entrepreneurs, informal workers, internally displaced persons, and households whose income has been affected by the economic impact of the COVID-19 crisis.

Discrimination and exclusion risk is effectively addressed under the SSNMP and proposed AF2 through the activities, measures and instruments aimed to ensure that eligible poor and disadvantaged households take advantage of a project's benefits, including: (i) addressing the needs of the vulnerable groups by changing the eligibility criteria of several SSN programs (increased coverage of the poor by the GMI program by relaxing eligibility rules and increasing the duration of payments; improving targeting accuracy of the HUS program; and improving unemployment assistance in terms of benefit amount, coverage, and administration); (ii) reducing error and fraud in the social assistance system, including managing exclusion/inclusion errors. Specifically, the SSNMP supported the development of an efficient



system to detect, deter, and prevent error and fraud in the social assistance system, namely the establishment of a Social Inspectorate, completion of two GMI Program inspections and establishment of hotlines to serve as a channel for receiving feedback. The Accounting Chamber of Ukraine has completed several operational and financial audits of the GMI Program and the original SSNMP. The audits focused on assessing the eligibility criteria and the program's administration aspects. A total of 246,000 of the GMI beneficiaries' cases (81 percent of the total number of registered cases) were covered by the auditor and deviations were revealed only in 0.7 percent of the reviewed cases; (iii) developing an open data system. The SSNMP supports the MoSP with the development of the Management Information System E-Social that will include the creation of the Single Registry of all beneficiaries that will be available on an open data platform and will provide a decision support tool for the MoSP to mitigate risks related to exclusion, monitor service delivery, carry out sectoral analysis, and plan resource allocation and interventions; and (iv) facilitating access of the poor and vulnerable to the SSN. Specifically, the AF2 would co-finance the costs of activities aimed to extend remote accessibility to most SSN benefits, application of digital solutions for electronic payment of benefits and pensions and reducing error and fraud in the social assistance system.

Gender-based Violence, Sexual Harassment and Sexual Exploitation and Abuse (GBV, SH and SEAH) risks related to activities under the SSNMP and AF2 are low due to the following factors: (a) the World Bank reports on the similar interventions introduced in the low- and middle-income countries provide convincing evidence that social assistance programs decrease the poverty-related stress and, thus, reduce the risk of physical, sexual, and intimate partner violence. The findings from 22 studies suggest that cash transfers were effective in reducing violence in over 70 percent of the programs (Buller et al. 2018). Impacts are primarily achieved through three pathways: (i) increased economic security and emotional wellbeing; (ii) reduced intra-household conflict; and (iii) increased women's empowerment; (b) SEA/SH risks are low given the results of the SSNMP and AF2 assessments carried out using the World Bank's SEA/SH Risk Assessment Tool; and (c) the analysis of 14,407 grievances processed by the MoSP GRM during January–June 2020 indicated that only 2.5 percent of the complaints were related to GBV and domestic violence issues. During the period analyzed, no grievances related to SEA/SH from beneficiaries, social workers, or any other stakeholders were submitted to the MoSP GRM or project-level GRM.

The GBV and SH/SEA risks are effectively addressed under the SSNMP and proposed AF2 through activities aimed to increase women's safety, address the specific protection needs of women and girls at risk, and prevent unwelcome behavior and violence against them: (a) the projects support a series of trainings aimed to enhance the capacity of social workers to address GBV issues; (b) the AF2 will also support the improvement of the payment model and full transition to direct deposits of cash transfers through bank accounts to beneficiaries of social assistance and pensions. Cash transfers through bank accounts are prioritized as they enhance financial inclusion and contribute to the mitigation of SH/SEA risks, encouraging digital rather than physical contact; (c) GBV and SH/SEA risks will be also mitigated through the project-financed support to the introduction of completely remote access to all social assistance benefits. Thus, the applicants can opt for no in-person interaction with decision-makers, who could potentially use their power over the distribution of benefits or services to extract gain or favor from those who seek them, including sexual gain.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

Long-term impacts are positive and contribute to better performance of Ukraine's social assistance and social services system for low-income families, vulnerable groups and households affected by COVID-19 pandemic. No potential indirect and/or long-term adverse impacts are expected due to anticipated future activities under the SSNMP or AF2.

Both the SSNMP and AF2 provide support to the most vulnerable groups in Ukraine using disbursement against the



achievement of PBCs. The number of direct beneficiaries under the proposed AF will grow from around 7.7 million individuals to 13 million. The expanded GMI will target households from the poorest decile and will cover a group of adults that are not in employment, education, training, or disabled. The country has a relatively well laid out and operating SSN system. Improvements in the benefits delivery systems that are supported by the proposed AF2 are expected to improve services and promote the inclusion of vulnerable groups into society. Improvements in the benefits eligibility rules supported by the proposed AF2 would reduce inclusion and exclusion gaps in the GMI and HUS programs.

The AF2 components will remain unchanged from the SSNMP. The full AF amount of US\$300 million will be allocated to Component 1 of the original project to finance the temporary income support to households and individuals affected by the COVID-19 pandemic and expansion of the GMI Program and technological improvements in enrolment, benefits delivery systems and fraud and errors control in social assistance and provide larger and fast disbursing cash transfers to existing beneficiaries identified through the social registries. Unemployed persons became eligible for the program regardless of the number of years worked and the level of state social insurance contributions. Graduates of the educational institutions, informal workers and those who were fired because of work absences also qualify for this type of assistance.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Not applicable.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The Borrower through the MoSP maintains the PIU within the MoSP throughout the duration of the SSNMP in a form and with functions, staffing and adequate resources satisfactory to the World Bank and as set forth in the POM. The MoSP and PIU have extensive experience in implementing operations financed by the Bank, including management of civil works under the Social Assistance System Modernization Project and Social Investment Fund Project. The capacity of PIU to manage environmental and social aspects is built up through relevant trainings and courses (including ESF Fundamentals e-learning course and face to face course).

Environmental and social risks under the proposed AF2 are Low since it will not finance any civil works. However, the MoSP will take due note of the COVID-19 related risks and will duly address the health and safety aspects related to project workers. The AF2 will be carried out in accordance with the applicable labor requirements, in a manner acceptable to the World Bank, including, inter alia, strengthening health and safety support, maintaining grievance arrangements for project workers, and incorporating health and safety requirements into the POM. Under the proposed AF2, a guidance note consolidating the advice that has been provided over the past months and best practices on addressing risks related to COVID-19 will be incorporated in the POM. These improvements will be applicable both to the SSNMP and the AFs.

GRM. Project-affected parties may submit complaints regarding the World Bank-financed activities to:

(i) Project-level GRM. Under the SSNMP the responsive and effective GRM was established at the project level. This mechanism is available for all including beneficiaries, project workers and other stakeholders. The complaints received through various channels (including phone, email, mail and online chat) are promptly reviewed by the PIU GRM Focal Point and relevant clarifications are provided to address the project-related concerns. All project workers are



encouraged to use the existing project grievance mechanism to raise workplace concerns and concerns relating to COVID-19, including on health of their co-workers and other staff, preparations being made by the project to address COVID-19 related issues and how procedures are being implemented. The GRM implemented under the SSNMP would be applicable to the proposed AF2. Under the AF2, the project-level GRM will be reviewed and further improvements be made to ensure that health and safety concerns are adequately addressed. The GRM Focal Point will be trained to more effectively address grievances relating to COVID-19 specific risks in a timely, effective and efficient manner that satisfies all parties involved.

(ii) Ministry-level GRM. The SSNMP supported institutionalization of the GRM Service, which is run by the MoSP, which allows submission of complaints and requests from beneficiaries of all social protection programs, including the programs which are not directly supported by the project (e.g. pensions). The Results Framework captures progress in GRM improvements by measuring the percentage of clients satisfied with the complaint handling mechanism that should increase by 10 percent during 2021–2022. Individuals, communities and legal entities who believe that they are adversely affected by the project can also use the multi-channel GRM operated by the MoSP. The MoSP maintains easily accessible GRM with functions, staffing and resources, enabling stakeholders to submit questions, complaints and suggestions through various channels (including phone, email, mail, online form, online chat and visits). The MoSP operates the following toll-free helplines to provide confidential service considering the specific needs of different groups: (i) hotline to report errors and fraud related to social assistance programs and social services; (ii) hotline for persons with disabilities; (iii) helpline to counter human trafficking; and (iv) helpline to tackle domestic and gender-based violence and violence against children. During January–June 2020, the MoSP received and reviewed 14,407 grievances. During 2019, 35,217 complaints were processed by the MoSP GRM service. The MoSP discloses semi-annual GRM performance reports on its website. The project-related complaints are promptly reviewed by the MoSP GRM Service and PIU Focal Point, relevant clarifications are provided and measures are taken to address concerns. The established procedure for the grievance processing can be summarized as follows: once the project-related grievance is received by the MoSP GRM Service and/or project GRM Focal Point, it is recorded and classified based on the typology of complaints in order to ensure most efficient response; the Focal Point approaches complainant to acknowledge the receipt of the grievance within 7 days; grievances/information requests which are easy to address are resolved at this stage (within 15 days); the grievances which require investigation are to be resolved within 30 days, the proposed measures are communicated to the applicant; grievance is closed or further steps are taken if the grievance remains open; complainants are requested to provide feedback on their satisfaction with taken decisions/measures and GRM performance. Under the proposed AF2, the project-level and Ministry-level GRM business processes will undergo review and further improvements;

(iii) The channels for grievance submission are publicly available at all local social welfare units, which could also receive the grievances or appeals related to the project activities. Regional (oblast) and sub-regional (rayon) units operate local hotlines and multi-channel GRMs allowing to submit grievances either orally, or in writing via suggestion/complaint boxes, phone, email, mail and online forms. Designated local welfare units' workers collect information on the project-related grievances and submit to the PIU. The complaints which are easy to address are resolved with support from the PIU Focal Point within 15 days. The grievances which require investigation are to be resolved within 30 days. The proposed measures communicated to and accepted by the applicant are taken within 5 days.; and

(iv) the World Bank's corporate Grievance Redress Service.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies,





with an emphasis on potentially affected people.

Key stakeholders. For the purposes of effective, tailored and inclusive engagement, stakeholders of the AF2 can be divided into the following core categories:

(i) Project-affected parties – individuals/groups/entities within the project area of influence that are directly influenced (actually or potentially) by the project and/or have been identified as most susceptible to change associated with the project, and who need to be closely engaged in identifying impacts and their significance, as well as in decision-making on mitigation and management measures.

The following parties (individuals and groups) may be subject to direct impacts from the AF2: poor households (including beneficiaries of the GMI and HUS programs), women-headed households, vulnerable households with children (including individual entrepreneurs, whose business was closed during quarantine, and their children), unemployed, unemployed youth, informal workers and newly employed social workers.

Given the nature of the project, disadvantaged and vulnerable individuals and groups are direct beneficiaries of the AF2 and belong to the project-affected parties. The Borrower, through the MoSP, ensures that these groups and individuals are identified and risks related to the social exclusion of those groups and individuals are duly addressed through differentiated mitigation measures (for more details see Discrimination and exclusion risk). The vulnerable and disadvantaged groups are identified through the eligibility criteria applied for the existing social assistance programs and recently introduced COVID-19 emergency cash assistance. Adequate national legislation is in place to ensure the inclusion of the disadvantaged and vulnerable with regard to social assistance provision.

(ii) Other interested parties – individuals/groups/entities whose interests may be affected by the project and who have the potential to influence the project outcomes in any way. These parties include: MoSP, Ministry of Finance, other central and local government bodies, PIU within the MoSP, local social welfare units, civil society groups and NGOs operating at the national and local level, national and international organizations, traditional media and journalists, Internet media, social media platforms and the public at large.

Given that the proposed AF2 interventions help to strengthen the social protection system, the MoSP, PIU, local governments and local social welfare units will benefit from access to: (i) systems, instruments and enhanced work practices developed and improved under the original project and AF2, allowing to effectively assess the needs of beneficiaries, as well as to plan, manage and deliver social assistance and services, and (ii) extensive capacity-building and training activities. The SSNMP-supported training programs for social workers will be expanded to include management of E&S and COVID-19 specific risks and impacts as well as the implementation of the ESMF.

Consultations and stakeholder engagement. The project directly supports consultations and extensive awareness-raising activities to develop strong, constructive and responsive relationships with the project stakeholders. Stakeholder engagement was initiated at an early stage of the original project, AF1 and AF2 preparation and continues to be an integral part of the projects' decisions. Specifically, these consultations and stakeholder engagement activities included but were not limited to: (i) activities under the SSNMP aimed at linking the GMI beneficiaries to a wide range of services in addition to the distribution of benefits, including beneficiaries in micro-credit schemes and improving accessibility to health, education, or financial services involved extensive consultations with beneficiaries and other stakeholders. The feedback received from beneficiaries informed decisions on the design of the services and contributed to other activities supported by the original project and AF1 design. The Results Framework of the SSNMP captures the growing share of complementary services for the GMI Program beneficiaries that were developed and agreed upon through participatory dialogue with vulnerable groups; (ii) since 2014, the team has provided support to



the GoU at every stage of the HUS reform implementation. In 2015 the team provided strong technical assistance (TA), which included surveys aimed to collect stakeholders' feedback on the new mechanisms for providing HUS and identify preferred communication channels to conduct consultations and convey reform messages to the public. In 2019, under the TA technical assistance, co-financed by the ESMAP, the team conducted extensive consultations, surveys, nation-wide communication campaign and held the trainings for social workers and journalists. The findings gained from these consultations, including stakeholders feedback on the proposed strategy to promote energy efficiency and reduce information gaps, addressed concerns related to the rules of the new HUS monetization schemes, identified communication channels to maximize media coverage and solicit feedback from HUS beneficiaries strengthened the quality of stakeholder engagement, informed the country-wide dialogue and contributed to developing two lending operations – AF1 and AF2, which directly support the HUS reform; and (iii) the SSNMP supported the GoU's community mobilization efforts, including consultations, training, and provision of computer equipment to amalgamated communities to support the implementation of the new social services delivery model, improve the communities' access to online communication channels (including online GRM channels) and ensure that community citizens are participating in prioritizing their needs and developing services. To ensure that project interventions meet local needs and improve accountability in service delivery, the project included two results indicators to measure the number of persons (including beneficiaries) who were involved in consultations and reported that the new model reflects their views and the number of communities that have implemented participatory budgeting.

A precautionary approach will be taken in stakeholder engagement activities to minimize the risk of COVID-19 transmission, following the World Bank's Technical Note: Public Consultations and Stakeholder Engagement in World Bank-supported operations when there are constraints on conducting public meetings. The stakeholder engagement activities were designed to ensure effective and meaningful engagement to meet project and stakeholder needs:

- (i) means of communication were diversified to rely more on online channels and social media. Virtual meetings and workshops are organized in situations where large meetings and workshops are essential. Webex, Zoom, Skype and, in low IT capacity situations, audio meetings, have proved effective to design virtual workshops and hold virtual meetings;
- (ii) where it is possible and appropriate chatgroups using mobile messengers and social media would be created, based on the type and category of stakeholders. Low-tech digital tools, such as WhatsApp, Facebook, or SMS, would be utilized to support two-way communications with stakeholders; and
- (iii) traditional channels of communications (TV, newspaper, radio, dedicated phone-lines, and mail) would be used when stakeholders do not have access to online channels.

If the COVID-19 public health emergency situation continues, virtual consultations using online channels of communication and social media will continue to be used. All engagement actions would follow appropriate social distancing precautions. In situations where none of the above means of communication is considered adequate for required consultations with stakeholders, the team will discuss with the MoSP and PIU whether the project activity could be rescheduled to a later time when meaningful stakeholder engagement is possible.

Disclosure arrangements. The updated ESMF will be publicly disclosed on the website of the MoSP, in form and languages (Ukrainian and English) that are understandable and accessible to project-affected groups, communities, local NGOs and other stakeholders, to launch consultations and solicit feedback from all interested parties on its provisions. The updated draft ESMF, both Ukrainian and English versions, will be disclosed on the MoSP website in October 2020. All received comments will be addressed in the final version of the ESMF to be disclosed by the World Bank and the MoSP.



**B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)**

**Environmental Assessment/Audit/Management Plan/Other**

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
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**"In country" Disclosure**

**C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)**

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**APPROVAL**

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