



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 22-Jan-2020 | Report No: PIDC203840



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P172442		Low	Fiscal Governance in Ukraine
Region	Country	Date PID Prepared	Estimated Date of Approval
EUROPE AND CENTRAL ASIA	Ukraine	22-Jan-2020	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Ministry of Economic Development, Trade and Agriculture of Ukraine	National Agency of Civil Service, Ministry of Economic Development, Trade and Agriculture of Ukraine	

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	4.41
Total Financing	4.41
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	4.41
European Commission Development Fund - TF	4.41

B. Introduction and Context

Country Context

Ukraine has faced enormous political, security and economic challenges over the past three years. The Maidan uprising led to a change in Government, followed by annexation of Crimea by the Russian Federation and a separatist military conflict in the eastern part of the country that has caused an estimated two million people to become internally displaced. The new President and the new reformist government declared the



continuity of the long-term political goal of Euro-Atlantic integration, and are working toward an end to the conflict whilst addressing the immediate needs of the displaced population, normalizing the political situation in the country, attaining macroeconomic stability, and laying a foundation for stable democratic and economic development.

Political and economic disruption has led to a severe contraction of industrial production and drastic falls in revenue. Real GDP fell by 6.8 percent in 2014 with further 10 percent fall in 2015. The fall in global commodity prices brought about recession in trading partner countries and negatively impacted terms of trade and associated revenue in Ukraine. Depreciation of the Hryvna continued through 2014-2015 causing an acute deterioration in living conditions, increases in unemployment and poverty rates.

Prior to the dramatic events of 2013-2015, structural reforms had been limited and the country found itself poorly prepared to dealing with sharply deteriorating macro-economic and social situation. Economic stagnation during 2008-2013 brought about negative growth averaging -0.7 percent annually. Increases in social spending (pensions) and the public sector wage bill, considerable subsidies to Naftogaz and other State-Owned Enterprises all contributed to accumulation of imbalances in public expenditure and fiscal deficit averaging 5.8 percent of GDP during 2011-2015.

Collective action during the Maidan uprising generated hopes and demand for change, transparency, justice, combating of corruption and accountable institutions. The Government took steps toward stabilizing the economy, adjusting expenditure to match the reduced revenue, implementing safety net measures for the internally displaced population, and maintaining the level of performance of public sector institutions to bring normalcy to the people's psychologically and economically traumatized lives.

The World Bank Systematic Country Diagnostic (SCD) for Ukraine (still in draft at the moment of preparing this Concept Note) identifies three key directions for the stabilization and laying the foundation for future growth and prosperity: first, macroeconomic stability; second, improvements in productivity and job creation; and third, more effective service provision to the population. Intensification of anti-corruption and governance reforms to reduce the influence of vested interests and strengthening institutions is considered as a prerequisite for achieving results in the three broad areas identified by SCD.

For the European Union, Ukraine is a priority country within the European Neighborhood Policy and the Eastern Partnership. The EU policy toward Ukraine promotes political association and economic integration. Financial support to reforms in Ukraine earmarks an unprecedented support package of EUR 11 billion. The latest initiatives in the area of governance provide support to strengthening public financial management and public administration reform in Ukraine. Along with the policy dialogue, the EU Support Group for Ukraine (UASG) provides technical assistance and budget support that underpins progress in these two areas. Nevertheless, the scope of reforms is immense and requires a concerted effort by donor partners, including the World Bank, to support an ambitious government agenda aimed at Euro-Atlantic integration.



Sectoral and Institutional Context

This project builds on the successful World Bank engagement in supporting public financial management in Ukraine over the past several years. The Delegation of the European Union to Ukraine (EUD) and the World Bank agreed to jointly support a program of assistance to the Government of Ukraine in implementing Ukraine's 2016-2020 Public Administration Reform Strategy (PAR Strategy, 2016) and Public Financial Management Reform Strategy (PFM Strategy, 2017-2020). Specifically, this support will be provided through a hybrid Trust Fund (TF), financed by the European Union. The TF's activities will include: the roll-out to and implementation of a Human Resource and Payroll Management Information System (HRMIS), which currently is being developed under EUroPAF-1, in the public administration institutions; strengthening the public investment management system of Ukraine (PIM); and improvement of accounting and auditing of state-owned enterprises (SOE).

The continuation of public financial management reforms is warranted by the macroeconomic context in Ukraine. During 2014-2017, the Government of Ukraine (GoU) has been successful in maintaining fiscal discipline and returned to growth, expected to reach 3.3 percent in 2018, and further increase to 3.8 in 2019. However, strong fiscal pressures created by a significant increase in public spending, specifically, on 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. The tasks that the Government faces in achieving longer-term macro-fiscal stability involve: implementing effective tax policies and sustaining fiscal discipline, increasing transparency and sustainability of current public expenditure and improving effectiveness and efficiency of public investments, and improving accountability in the general government and SOE sector. Budget consolidation measures should include optimization of public sector employment and effectiveness of the civil service. The latter requires the implementation of HRMIS at the central government and the subnational tier.

To maintain the reform momentum in the public administration and public financial management, to ensure coherence and synergy between both reforms, and to align development support by multiple development partners invited by the EUD to support Ukraine's PAR and PFM reforms, the Bank proposes deepening the engagement in the following reform areas:

1. Supporting the HRMIS roll-out, including change management, to the public institutions at central and subnational tiers of the government;
2. Enhancing the public investment management system (PIMS); and
3. Supporting better governance and accounting of State-Owned Enterprises (SOEs).

Proposed interventions in the above areas are described in further sections of this document and will be implemented through Bank Executed (BE) and Recipient Executed (RE) activities.



Relationship to CPF

The operation is fully aligned with the Systematic Country Diagnostic (2017 SCD) which identifies the need for strengthening government effectiveness, improving transparency, strengthening anticorruption institutions and rightsizing the public service and to the Country Partnership Framework (2017-2021 CPF) which addresses Ukraine's governance challenges as a cross-cutting issue through a two-pronged strategy: a) the first objective is to promote fiscal transparency and strengthen public financial management (PFM); and b) the second objective is to strengthen accountability by enhancing anticorruption and citizen engagement initiatives.

This operation will contribute to government effectiveness and transparency through improving the capacity of the Ministry of Finance in its core functions, including public investment management (PIM), implementing an automated human resource management information and payroll system (HRMIS) that will support future rightsizing of the state administration and optimizing personnel expenditure, and supporting better governance and accounting of state-owned enterprises (SoEs).

C. Project Development Objective(s)

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.

Key Results

The outcome-level results include:

- Improved transparency and efficiency in human resource and payroll management in the civil service of Ukraine.
- Improved targeting of public investments in line with strategic policy priorities of the Government.
- Increased transparency, accountability and fiscal discipline among SOEs.

D. Preliminary Description

Activities/Components

Component 1 - Country-wide Launch of the HRMIS

The Activities under this component includes:



1. Functional enlargement of the HRMIS System through the development of modules for performance appraisal, development of professional competences, and analysis and reporting.
2. HRMIS System: Functional Enlargement, Launch and Data Migration including training future users and Change Management.
3. Improving the policy and methodological framework for the implementation of the main functional modules of the HRMIS (career development, performance appraisal, and training).
4. Annual technological upgrades and HRMIS adaptive and evolutive changes.

Component 2 - Enhancing the Public Investment Management

The Activities under this component includes:

1. Establishment of a comprehensive database of public investment portfolio including automation of PIM processes.
2. Capacity building for better management of public investment projects.
3. Strengthening the MEDTA's capacity to coordinate and monitor public investments.

Component 3 - Better governance and oversight of State-owned Enterprises (SoEs)

The Activities under this component includes:

1. Streamlining and aggregating of SOE financial data for performance assessment and improved risk analysis.
2. Review of key financial performance indicators and developing a dashboard for SOE performance assessment.

Component 4: Project Implementation of the Recipient Activities

The Activities under this component includes:

1. Implementation by the Ministry of Economic Development and Trade of Ukraine (MEDTA).
2. Implementation by the National Agency of Civil Service of Ukraine (NACS).
3. Project Audit.



Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

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Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The project environmental and social risks and impacts are not anticipated - the proposed activities will not support any activities including civil works, land acquisition or retrenchment, 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, nor does it involve any legislative changes.

CONTACT POINT

World Bank

Contact :	Emmanuel F. Cuvillier	Title :	Sr Public Sector Spec.
Telephone No :	5220+39395	Email :	
Contact :	Iryna Shcherbyna	Title :	Senior Public Sector Specialis



Telephone No : 5262+3914

Email :

Borrower/Client/Recipient

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

Contact : Taras KACHKA

Title : Deputy Minister

Telephone No : 380442531055

Email : pr6@me.gov.ua

Contact : Roman KROPYVNYTSKIY

Title : Head, State Asset Management Department

Telephone No : 380442531056

Email : kropme@gmail.com

Implementing Agencies

Implementing Agency : National Agency of Civil Service

Contact : XX XXX

Title : Chair

Telephone No : 380442540600

Email : konstantin.vashchenko@ncsa.ua

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

Contact : Taras Kachka

Title : Deputy Minister

Telephone No : 044-200-47-53

Email : meconomy@me.gov.ua

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FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>