



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 20-Dec-2019 | Report No: PIDC28180



BASIC INFORMATION

A. Basic Project Data

Country Ukraine	Project ID P172348	Parent Project ID (if any)	Project Name Eastern Ukraine: Reconnect, Recover, Revitalize (3R Project) (P172348)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Mar 31, 2020	Estimated Board Date Jul 30, 2020	Practice Area (Lead) Social
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency UKRAVTODOR, Ministry of Veterans Affairs, Temporarily Occupied Territories and Internally Displaced Persons	

Proposed Development Objective(s)

To strengthen transport connectivity and enhance agricultural efficiency in project areas in Luhansk Government Controlled Areas (GCAs) in eastern Ukraine.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	100.00
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Environmental and Social Risk Classification

Concept Review Decision



Substantial

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

- 1. *Ukraine’s economic growth has been uneven since the country’s independence in 1991 and has been influenced by its strong dependence on external factors, the global financial crisis of 2008, and the outbreak of conflict in 2014.*** During the 2000-2007 period, Ukraine sustained a high average annual growth rates of seven percent. Capital inflows surged and credit growth boomed, fueled by the external borrowing of commercial banks. This enabled an expansionary fiscal policy that resulted in the accumulation of a structural deficit. Growth was almost entirely driven by favorable external conditions but was not supported by structural reforms needed to sustain long-term growth. With the onset of the global financial crisis in 2007, the Ukrainian economy contracted rapidly. The Maidan revolution, the events in Crimea in March 2014, and the armed conflict in the east of the country since 2014 resulted in a severe recession and the economy contracted by 16 percent during 2014-2015. The Government of Ukraine subsequently undertook a series of reforms that helped stabilize the economy. Economic growth has resumed albeit at a modest rate. Gross domestic product (GDP) grew by 2.3 percent in 2016 and by 2.5 percent in 2017. In the first half of 2019, GDP growth was solid at 3.6 percent driven by agriculture and sectors dependent on domestic consumption, while investment growth remained weak.
- 2. *Poverty effects vary across the country as fiscal and conflict-related pressures amplify traditional factors of vulnerability.*** Significant regional disparities have characterized the Ukrainian development model for decades and the benefits of economic growth have not been shared evenly among regions.¹ Poverty remains higher in rural areas (8.5 versus 5.1 percent) where local communities face challenges including poor living conditions, outdated infrastructure, and limited services. Inflows of internally displaced persons (IDPs) due to the conflict have put an additional strain on local resources and services in host communities.
- 3. *The outlook for economic growth and poverty reduction depends on whether the new government can deliver on its key reform priorities to address bottlenecks to investment and productivity; and to promote human capital.*** After taking office in August 2019, President Volodymyr Zelenskyy committed to move forward an ambitious and wide-ranging reform agenda, including establishing a transparent and efficient agricultural land market, de-monopolizing the gas sector, and increasing the efficiency of bank lending to the private sector. Additional reform areas include: administrative decentralization, tariffs and social assistance, enhancing the transparency of public procurement, simplifying business regulations, moving forward on health and pension reforms, and increasing the effectiveness of anti-corruption agencies.
- 4. *President Zelenskyy has prioritized outreach and support to conflict-affected communities in eastern Ukraine as a centerpiece of his Government’s policy agenda.*** On October 29, 2019, at the initiative of the President, the Government of Ukraine convened the Mariupol Investment Forum, gathering Ministers, local administration, private sector representatives and international partners to underscore the Government’s commitment to promote investment, economic opportunity and growth of the region. The ‘*Cabinet of Ministers of Ukraine Action Program*’ released in October 2019 also includes a focus on enhanced services, employment opportunities and support to conflict-affected populations.

¹ Due to data limitations, it is impossible to robustly assess monetary poverty at the subnational level and to measure regional differences. Non-monetary indicators of wellbeing (e.g., life expectancy, unemployment, etc.) show disparities in various parts of the country.



5. **The conflict in eastern Ukraine, now over five-years-old, continues to impact the lives and livelihoods of millions of Ukrainians.** Since the onset of conflict in 2014, over 13,000 people have been killed and 2.7 million persons displaced. Despite the extension of a fragile ceasefire agreement in February 2015 (Minsk II), fighting in eastern Ukraine continues. The security situation remains volatile with daily hostilities along the ‘Contact Line’ that separates Government-Controlled Areas (GCAs) and Non-Governmental Controlled areas (NGCAs) in Donetsk and Luhansk oblasts in eastern Ukraine. A new flashpoint in tense Ukrainian-Russian relations also emerged in 2018 in the Sea of Azov, with a Russian blockade impacting Mariupol, a crucial industrial port city in southeastern Ukraine.

6. **The outbreak of conflict severely impacted socio-economic activity in Ukraine’s eastern industrial heartland—pre-conflict the Donetsk and Luhansk regions (‘the Donbas’) accounted for almost one-quarter of Ukraine’s industrial activity and an equal share of its exports.** Over five million eastern Ukrainians have been affected by the conflict, including damage to infrastructure, interruption of markets and services, restrictions of movement, loss of employment and psychosocial impacts.² As of early 2015, 800,000 jobs had been lost in the Donbas.³ An estimated 70 percent of enterprises surveyed in Donetsk and Luhansk in 2017 reported decreasing revenues; and pointed to lack of access to credit, disrupted trade relationships, lack of demand for products, and shrinking workforces.⁴ Over 1.3 million internally displaced populations have settled in Government-controlled areas of Donbas and across Ukraine (see Figure 2). A 2017 World Bank survey of socio-economic impacts of the conflict highlighted a convergence of welfare and socio-economic challenges faced by IDPs, veterans and host communities, including increases in rent and utility prices, gaps in services and an inability to find permanent, well-paying employment.⁵

Figure 1: Government and Non-Government Controlled Areas (Source: UN Humanitarian Response Plan 2018)

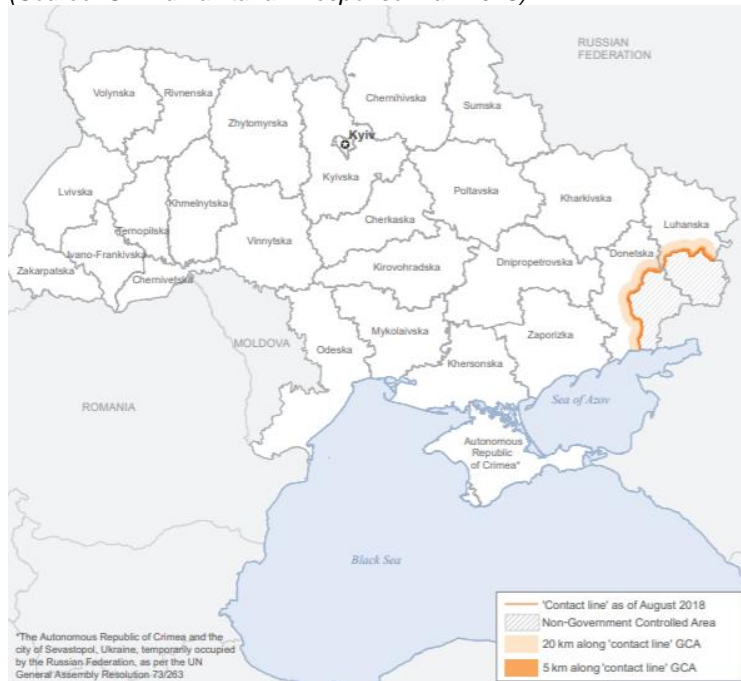
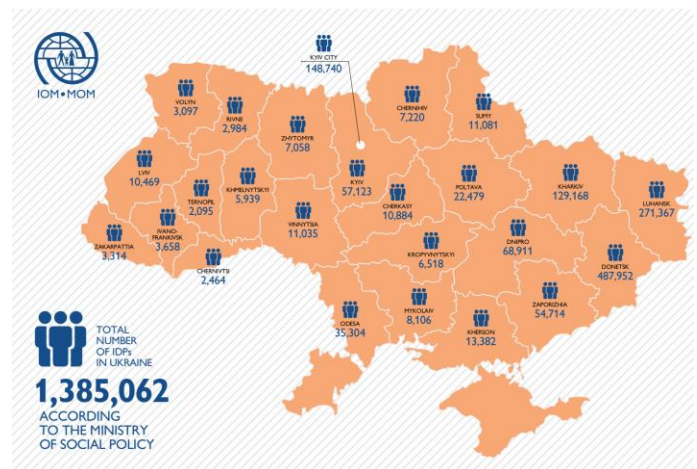


Figure 2: IDPs in Ukraine (Source: International Organization of Migration)



² European Union, United Nations and World Bank, 2015, *Recovery and Peacebuilding Assessment for Eastern Ukraine*.
³ Ximena Del Carpio, Olga Kupets, Noël Muller, and Anna Olefir. *Skills for a Modern Ukraine*. World Bank, 2017 at <https://openknowledge.worldbank.org/bitstream/handle/10986/25741/9781464808906.pdf>.
⁴ REACH March 2017, *Thematic Assessment of Livelihoods in Donbas*, <http://www.reachresourcecentre.info>.
⁵ World Bank 2017, *Ukraine: Socio-Economic Impacts of Internal Displacement and Veteran Return*.



associated with the future of the region have had economic and social effects. Social cohesion data illustrates the nature of the challenges of economic recovery in Luhansk. Scores for whether a “positive entrepreneurship environment” exist in the Oblast are among the lowest in Ukraine. Support for reforms is relatively weak and below the national average. Trust in central and local institutions is low and perceptions of poor accountability of government institutions are pronounced.¹⁰

Sectoral and Institutional Context

10. The sectoral and institutional context for the proposed Eastern Ukraine: Reconnect, Recover, Revitalize (3R Project) emerges from three areas of development activity to promote socio-economic revitalization of Luhansk Oblast/GCAs: agricultural development; transport and connectivity; and service delivery.

11. **The agricultural sector plays a key role in Ukraine’s overall economic growth and development and is particularly relevant in Luhansk Oblast following industrial losses due to the conflict.** Agriculture accounts for 10 percent (2017) of Ukraine’s overall GDP and 18 percent (2016) of formal employment. Agricultural export is a key driver of Ukraine’s economy, accounting for nearly 42 percent (US\$ 18 billion) of total export value (US\$ 43.3 billion in 2017). In Luhansk Oblast, the agricultural sector played a significant role in the regional economy prior to the conflict, yet it was overshadowed by large-scale industrial production, trade, and services. What remains of Luhansk’s economy in government-controlled areas of the Oblast after 2014, however, is now dominated by agricultural production. Cereal production is by far the most significant agricultural sector in the Oblast, accounting for 16 percent (US\$ 6 billion) of exports. Specifically, over 57 percent of arable land in the Oblast’s government-controlled territory is used to cultivate cereals and sunflower. In addition to cereal production, dairy and fruit and vegetable production play an important economic and employment role in Luhansk GCAs.

12. **The conflict has interrupted agricultural supply and value chains in Luhansk Oblast.** Prior to the conflict, the majority of crops and livestock products in Luhansk were transferred to processors or to elevators (cereals) for storage and processing in the south of the Oblast where products were then either exported from southern ports or sold to the domestic market. However, following the conflict, access to most of the Oblast’s elevators and processors, and to ports was disrupted. As a result, farming communities in northern and eastern sides of the Oblast lost access to elevators and processing facilities in close geographic proximity to points of production. The new reality for the farming community in Luhansk GCAs is the requirement to now transport raw material great distances over poor quality roads. In addition, lower cost agricultural inputs from southern parts of the Oblast are no longer available and must also be transported long distances. This has resulted in higher production costs (with more expensive inputs particularly fertilizers and animal feed which generally accounts for more than 60 percent of production costs), an erosion of competitiveness and a decline in agricultural output. In addition, the absence of mechanical services, particularly for SME and household-based farmers, contributes to crop losses (late planting and harvest) and higher production costs due to reliance on manual labor.

13. **The conflict has had a severe impact on connectivity of farmers to processors and markets.** Prior to the conflict, Luhansk relied on railway and road connections that were used for transportation of agricultural goods to processing facilities and urban centers/markets now located in NGCAs (e.g. Luhansk City) and in the Russian Federation. As the agricultural sector was oriented to domestic/regional markets, along with serving the demand of the Russian Federation, logistic chains, were primarily oriented to Luhansk. Due to the interruption of markets and the loss of access

¹⁰ This section drawn from SEED (Centre for Sustainable Peace and Democratic Development (SEED), Ukraine survey work in 2018 and 2019 survey data at www.scoreforpeace.org



to a key railway connection in northern Luhansk, both railway and road logistics have now been reoriented westward towards the Kharkiv region through the agricultural railway connection in Svatove, in northwestern Luhansk.

14. ***As a result, the transport costs of agricultural inputs and outputs and the degradation of roads due to heavy truck traffic have increased considerably.*** The average distance for road haulage, mainly grain and oilseeds in the region, has increased by 55-75 kilometers since the conflict.¹¹ As a result, the additional costs for agricultural producers in 2018 amounted to 140-190 UAH per 1 ton of cargo. Due to supply logistics, the costs of production have also increased because of higher prices for the import of agricultural inputs such as fuel and lubricants, seeds, and fertilizers. While pre-conflict (in 2013), sales prices for agricultural goods were comparable between Luhansk Oblast and Ukraine national averages; since 2014, Luhansk prices have been consistently lower.¹² Moreover, increased truck traffic has hastened the deterioration of the Oblast's primary and secondary road structure.

15. ***The conflict in eastern Ukraine has also impacted service delivery networks and service infrastructure in the region.*** The conflict has isolated rural communities in Luhansk GCAs from service centers located in urban areas in NGCA of the Oblast, such as Luhansk City. Insecurity and curtailed access to referral hospitals and pharmacies have undermined the health care system's ability to cope with both new and pre-existing health care needs, especially for people living in rural areas.¹³ Almost half of households (48 percent) living in rural areas also report problems with access to education. Distance (including poor roads and connectivity), quality and quantity of teaching staff, the lack of psycho-social support, school fees, and overcrowded classes were the primary concerns.¹⁴ The opening of nine Administrative Service Centers in the Oblast since 2018 has improved access to transactional services but the need for legal assistance also continues to be an area of concern. The disruption of service delivery network connections due to conflict paired with decentralization reforms have put new burdens on service hubs in urban areas of Luhansk GCAs.

16. ***IDPs and veterans in Luhansk also face particular development challenges.*** Among the 271,367 IDPs in Luhansk that are registered with the Ministry of Social Policy, the largest percentage are age 60 and above (72 percent). Among oblast-level IDP populations in Ukraine, this is the largest concentration of pensioners, per oblast, in the country. Tensions are also generally low with IDPs and hosts tending to suffer the deprivations associated with the conflict and poor services in equal measure.¹⁵ What distinguishes the experience of many IDPs in Luhansk from residents is their difficulty in accessing land and housing (they typically rent). Working age IDPs that are not in public service must also contend with fewer job opportunities in the agricultural northern portions of Luhansk that match their more industry-centric skill sets developed in the southern region of Luhansk. Veterans in Luhansk endure conditions much like veterans elsewhere in Ukraine. They contend with unemployment and difficult transitions to civilian life, express a desire for improved psycho-social support and rehabilitation, and have difficulty accessing and securing the benefits to which they are entitled.¹⁶ Veterans in Luhansk Oblast, like elsewhere in Ukraine, are entitled to two hectares of land but the grant of such land is inconsistent. When land is granted, it can be of inferior quality for traditional crops and too small to generate income beyond use as a home garden.

¹¹ USAID, Economic Recovery Program/Luhansk Oblast, November 2019.

¹² USAID, Economic Recovery Program/Luhansk Oblast, November 2019.

¹³ UNHCR (Health Cluster): *Exploring Access to Health Care in Ukraine*, July 2019.

¹⁴ REACH, *Multi-Sector Needs Assessment*, 2018.

¹⁵ Interviews during project preparation, Luhansk.

¹⁶ Swiss Agency for Development and Cooperation, *Mental Health in Donetsk and Luhansk (2018)*. In the Luhansk region, the number of institutions where veterans and others can receive qualified assistance is less than the national average and behind Donetsk. Two psychiatric hospitals (in Lysychansk and Svatove), a narcological dispensary in Lysychansk, the Center for Restoration and Rehabilitation of War Veterans in Rubizhne, the Regional Center for Practical Psychology and Social Work in Severodonetsk, as well as four of the sixteen hospitals in the region have a psychologist or psychiatrist office.



Relationship to CPF

17. ***The proposed 3R Project is consistent with the World Bank's country program, which focuses on supporting Ukraine to move forward its ambitious reform agenda to achieve economic recovery, development and growth.*** Through its area-based approach, the proposed project falls under the Ukraine Country Partnership Framework (FY17-21) Focus Area 3: Effective Services and Targeted Assistance/ targeted support to conflict-affected populations. The multi-sectoral approach targets development support to Luhansk GCAs' conflict-affected populations. The project also contributes to achievement of CPF cross-cutting issues such as public administration reform and citizen engagement. The design of the project, including its focus on transport and agriculture, builds on the World Bank's national portfolio of investments (for example Accelerating Private Investment in Agriculture Program and Road Sector Development Project) and sector knowledge.

18. ***The proposed project also builds on the World Bank's support to the Government of Ukraine since 2014 to diagnose socio-economic impacts and promote development solutions to the conflict.*** The Bank initiated its engagement as a co-author, alongside the United Nations and European Union, of the Recovery and Peacebuilding Assessment (RPA) for Eastern Ukraine which was adopted by the GoU in August 2015. Through trust fund financing, including the Conflict Response and Recovery Pilot and Capacity Building Project (US\$ 3.6 million) and a World-Bank Administered Multi-Partner Trust Fund on Peacebuilding and Recovery (MPTF; US\$ 2.07 million), the Bank has supported analytics, capacity building and pilot programming in eastern Ukraine to address the needs of IDPs, veterans, and host communities. The MPTF is supporting a current Study on Economic Recovery of the Donbas to generate evidence-based policies and recommendations for investments to promote mid- to longer-term development and growth of the region; results of the Study will inform project preparation as it proceeds.

C. Proposed Development Objective(s)

To strengthen transport connectivity and enhance agricultural efficiency in project areas in Luhansk Government Controlled Areas (GCAs) in eastern Ukraine.

Key Results (From PCN)

- Decline of travel time to service centers and improvement of road safety for pedestrians and road users
- Decline in transport cost from farms/processing centers to main transport hubs
- Decline in unit cost of agricultural production and increased farmer profitability amongst project beneficiaries
- Percentage of sampled community respondents reporting that infrastructure investments financed by the Project reflect their priority needs (disaggregated by gender, location, IDPs/veterans/youth)

D. Concept Description

19. ***Project areas in Luhansk Oblast GCAs face disruption and disorganization of agricultural supply and value chains, transport links, markets and service delivery networks.*** Communities in Luhansk GCAs face a new socio-economic reality due to the conflict. Recognizing the agricultural profile of Luhansk Oblast, and given the ongoing and planned land reforms supported at the highest level of government, the proposed project focuses on enhancing agricultural sector efficiency and recovery as a key anchor of regional development and growth. The proposed project contributes to the new administration's higher-level policy objective of national outreach and development support to eastern Ukraine to promote confidence building, connectivity, and inclusion of conflict-affected populations. The use of participatory approaches will include measures to ensure that conflict-affected and vulnerable populations, such as veterans and IDPs,



participate in project decision-making processes and benefit from project investments. The following components are being considered to support achievement of the Project Development Objective.

20. **Component 1: Connecting communities and agricultural industry to markets and services.** Component 1 proposes to support rehabilitation of roads in Luhansk oblast to support agricultural development and growth; and to connect people to urban service centers in Luhansk GCAs. Local roads and logistics have been a key bottleneck for supporting agricultural value chains and the development of the region. The project proposes to prioritize road investments that link farmers to local processors and markets; as well as link agricultural communities to service centers in Luhansk GCAs. Based on this criteria, the Project has identified initial possible roads investments in the ‘agricultural and services triangle¹⁷’ and nearby agricultural areas which includes *Starobilsk*, as the agricultural center of Luhansk GCA; *Svatove* which has the region’s railway connector and serves as a transport point for agricultural goods; and *Severodonetsk* and surrounding population centers as the service hub and defacto capital of Luhansk GCA, with the potential for agro-industrial growth, and where the majority of IDPs in Luhansk GCAs are registered. The target area also includes potential extension of roads investments to northern (*Troistke*) and eastern areas of Luhansk GCAs agricultural areas which also include some of the region’s remaining processing facilities.

21. The State Road Agency “UKRAVTODOR” (UAD) is already investing in repairs of various segments of the regional road linking Starobilsk and Svatove. The Project will contribute to such plans by financing selected sections of the “triangle”, along with local network, that connects the “triangle” with processing or storage facilities used by farms in the east and north of Luhansk region. The scope of works would be limited to rehabilitation of existing pavement, reorganization of traffic on junctions and installation of road safety equipment. Construction activities will also utilize local labor from project areas to create additional employment opportunities for local communities, including targeting IDPs and veterans. During mission consultations, farmers, representatives of local companies, and small and medium size agricultural enterprises expressed their interest in supporting Government in the rehabilitation and maintenance of local roads, viewing this as vital for growth of the agricultural sector. In that regard, the Project also proposes to finance technical assistance support for the maintenance of local feeder roads that increase connectivity between farming facilities and the regional roads that will be rehabilitated by the Project. This could include trainings, trainer-of-trainer programs, workshops, and development of a handbook on methodology for periodic maintenance and repair of low category network roads.

22. **Component 2: Investing in agricultural infrastructure to increase efficiency and support sector recovery.** Component 2 proposes to complement Component 1 investments in transport connectivity in project areas by investing in select agriculture-related infrastructure that contributes to enhanced agricultural sector efficiency and recovery. Agriculture-related infrastructure investments may be prioritized based on community needs and to address some of the key impacts of the conflict, including disruption of markets, lack of access to processing and storage facilities, and higher production costs. Types of facilities could include (to be further developed during project preparation): development of market facilities as new ‘hubs’ of socio-economic activity in Luhansk GCAs; community-managed collection, storage and processing (drying/sorting/crushing etc.) facilities; mechanization service infrastructure; Rural Business Support Centers (which could provide business and administration support to the agricultural sector)¹⁸; and agricultural training facilities. Financing support would include: construction/rehabilitation; technical design; and supervision services by certified engineers. Infrastructure investments will primarily support small- to medium-size grain and sunflower producers that dominate the agricultural market in the Luhansk region as well as small and medium-size fruit, dairy, milk and meat

¹⁷ During project identification missions in September and November, 2019, officials and agricultural sector representatives referred to proposed project areas as the ‘circle of life’ due to the importance of linking Luhansk’s agricultural areas to markets; and to services in the oblast.

¹⁸ FAO has developed *Rural Business Support Centers* in other parts of Ukraine that provide market information, training related to technologies, business management and information on access to finance to the agricultural sector.



producers. Investments are expected to increase employment and availability of short-term or seasonal jobs as value chains are reestablished, including for IDPs and veterans.

23. Depending on focus areas for infrastructure development, agricultural infrastructure investments could be accompanied by a technical assistance support mechanism to work with the agricultural communities to manage infrastructure investments, support technology transfer and provide marketing and other types of support. Recognizing the isolation of the agriculture sector in Luhansk, this could include introducing satellite and other digital technologies to undertake mapping of local producers, local supply and value chains, infrastructure gaps, potential market spaces, and agricultural and climatic data to help identify high-impact investments. Special attention could also be given to the participation of veterans who receive two hectares of land as a part of their veteran benefit whereby technical assistance to support the production of high value intensive crop production could be promoted.

24. **Component 3: Project Management and Community Engagement.** Component 3 proposes to support project management and implementation support activities including financing for staff, consultants, essential equipment, operating costs, and monitoring and evaluation activities. The project would also support community engagement and monitoring activities to promote transparency and accountability in the project. The project will also support community scorecards and a robust beneficiary feedback mechanism (BFM) in project areas. Community engagement activities will have a particular focus on outreach to conflict-affected and vulnerable populations such as IDPs, veterans, youth prone to out-migration, and women. The Project will include a focus on communications and outreach activities in target communities to reinforce national commitment to recovery and growth of conflict-affected eastern Ukraine and to report on project plans and results. Funding will also be provided for beneficiary assessments, periodic surveys, monitoring and evaluation activities, project audits, and a project grievance redress mechanism (GRM) that will monitor the handling of grievances.

Legal Operational Policies	Triggered?
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	



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APPROVAL

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Practice Manager/Manager:		
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