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Report No: PADHP00078

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM APPRAISAL DOCUMENT

FOR

A PROPOSED IBRD LOAN IN THE AMOUNT OF US\$450 MILLION EQUIVALENT FINANCED BY THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND
A PROPOSED CREDIT IN THE AMOUNT OF US\$300 MILLION EQUIVALENT FINANCED BY THE SPECIAL PROGRAM
FOR UKRAINE AND MOLDOVA RECOVERY (SPUR) OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)
CRISIS FACILITY

TO

UKRAINE

FOR A

SUPPORTING RECONSTRUCTION THROUGH SMART FISCAL GOVERNANCE – SURGE
PROGRAM FOR RESULTS
(P504773)

October 16, 2024

Governance
Europe And Central Asia

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CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2024)

Currency Unit = Ukrainian Hryvnia (UAH)

US\$1 = UAH 41.22

SDR1 = US\$1.36

FISCAL YEAR

January 1 - December 31

Regional Vice President: Antonella Bassani

Regional Director: Asad Alam

Country Director: Robert Saum

Practice Manager: Adrian Fozzard

Task Team Leader(s): Urska Zrinski, Oleksii Balabushko, Iryna Shcherbyna



ABBREVIATIONS AND ACRONYMS

| | |
|--------|--|
| ACG | Anti-corruption Guidelines |
| CE | Citizen Engagement |
| CMU | Country Management Unit |
| CPF | Country Partnership Framework |
| CPS | Country Partnership Strategy |
| CSO | Civil Society Organization |
| DLI | Disbursement Linked Indicator |
| DLR | Disbursement Linked Result |
| DREAM | Digital Restoration Ecosystem for Accountable Management |
| E&S | Environmental and Social |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| EFF | Extended Fund Facility |
| EIB | European Investment Bank |
| ESSA | Environmental and Social Systems Assessment |
| EU | European Union |
| EUR | Euro |
| FCDO | United Kingdom's Foreign, Commonwealth and Development Office |
| FM | Financial Management |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| HEAL | Health Enhancement and Lifesaving |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IFSA | Integrated Fiduciary Systems Assessment |
| IFIs | International Financial Institutions |
| IMF | International Monetary Fund |
| IT | Information Technology |
| IVA | Independent Verification Agent |
| LEARN | Lifting Education Access and Resilience in times of Need Program for Results |
| LOGICA | Local Government Information and Communication System for Budgeting |
| LULUCF | Land Use, Land-Use Change and Forestry |
| M&E | Monitoring and Evaluation |
| MCTD | Ministry for Communities and Territories Development |
| MoE | Ministry of Economy |
| MoF | Ministry of Finance |
| NABU | National Anti-Corruption Bureau of Ukraine |
| NBU | National Bank of Ukraine |
| NDC | Nationally Determined Contribution |
| NRS | National Revenue Strategy |



| | |
|------------|---|
| OECD | Organization for Economic Cooperation and Development |
| OECD SIGMA | OECD Support for Improvement in Governance and Management Program |
| PAP | Program Action Plan |
| PEACE | Public Expenditure for Administrative Capacity Project |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Financial Management |
| PDO | Program Development Objective |
| PIM | Public Investment Management |
| PIU | Program Implementation Unit |
| PforR | Program for Results |
| PPP | Public-Private Partnership |
| RDNA | Rapid Damage and Needs Assessment |
| RISE | Resilient, Inclusive and Sustainable Enterprise Program for Results |
| SAF-T UA | Standard Audit File for Tax in Ukraine |
| SAPO | Special Anti-Corruption Prosecutor's Office |
| SDR | Special Drawing Rights |
| SIDA | Swedish International Development Cooperation Agency |
| STRONG | Strengthening Government Capacity for Fiscal Reform Implementation Project |
| STS | State Tax Service |
| SURGE | Supporting Reconstruction through Smart Fiscal Governance Program for Results |
| UNHCR | United Nations High Commissioner for Refugees |
| UN HRMMU | United Nations Human Rights Monitoring Mission in Ukraine |
| USAID | United States Agency for International Development |
| WB | World Bank |
| WBG | World Bank Group |



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DATASHEET

BASIC INFORMATION

| | | | |
|--------------------------|---|--|--|
| Project Beneficiary(ies) | Operation Name | | |
| Ukraine | Supporting Reconstruction through Smart Fiscal Governance (SURGE) | | |
| Operation ID | Financing Instrument | Does this operation have an IPF component? | |
| P504773 | Program-for-Results Financing (PforR) | No | |

Financing & Implementation Modalities

| | |
|--|--|
| <input type="checkbox"/> Multiphase Programmatic Approach (MPA) | <input checked="" type="checkbox"/> Fragile State(s) |
| <input type="checkbox"/> Contingent Emergency Response Component (CERC) | <input type="checkbox"/> Fragile within a non-fragile Country |
| <input type="checkbox"/> Small State(s) | <input checked="" type="checkbox"/> Conflict |
| <input type="checkbox"/> Alternative Procurement Arrangements (APA) | <input checked="" type="checkbox"/> Responding to Natural or Man-made Disaster |
| <input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS) | |

| | |
|------------------------|-----------------------|
| Expected Approval Date | Expected Closing Date |
| 07-Nov-2024 | 31-Mar-2027 |
| Bank/IFC Collaboration | |
| No | |

Proposed Program Development Objective(s)

To establish the institutional foundations for implementation and financing of climate-smart recovery and reconstruction.



Organizations

| | | | |
|----------------------|---------------------------------------|----------------|----------------------|
| Borrower: | Ukraine | | |
| Contact | Title | Telephone No. | Email |
| Implementing Agency: | Ministry of Finance | | |
| Contact | Title | Telephone No. | Email |
| Olga Zykova | Deputy Minister of Finance of Ukraine | 00380442775627 | zykova@minfin.gov.ua |

COST & FINANCING (US\$, Millions)

Maximizing Finance for Development

| | |
|---|----|
| Is this an MFD-Enabling Project (MFD-EP)? | No |
| Is this project Private Capital Enabling (PCE)? | No |

SUMMARY

| | |
|----------------------------------|-----------------|
| Government program Cost | 4,745.70 |
| Total Operation Cost | 2,787.53 |
| Total Program Cost | 2,736.78 |
| Other Costs (Front-end fee,IBRD) | 50.75 |
| Total Financing | 1,987.53 |
| Financing Gap | 800.00 |

Financing (US\$, Millions)

World Bank Group Financing

| | |
|--|--------|
| International Bank for Reconstruction and Development (IBRD) | 450.00 |
| International Development Association (IDA) | 300.00 |
| IDA Credit | 300.00 |

Non-World Bank Group Financing



| | |
|---------------------|----------|
| Counterpart Funding | 1,237.53 |
| National Government | 1,237.53 |

IDA Resources (US\$, Millions)

| | Credit Amount | Grant Amount | SML Amount | Guarantee Amount | Total Amount |
|----------------------|---------------|--------------|-------------|------------------|---------------|
| Transitional Support | 300.00 | 0.00 | 0.00 | 0.00 | 300.00 |
| Total | 300.00 | 0.00 | 0.00 | 0.00 | 300.00 |

Expected Disbursements (US\$, Millions)

| WB Fiscal Year | 2025 | 2026 | 2027 |
|----------------|--------|--------|--------|
| Annual | 500.00 | 250.00 | 0.00 |
| Cumulative | 500.00 | 750.00 | 750.00 |

PRACTICE AREA(S)

Practice Area (Lead)

Governance

Contributing Practice Areas

Macroeconomics, Trade and Investment; Urban, Resilience and Land

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

Risk Category

Rating



| | |
|---|---------------|
| 1. Political and Governance | ● High |
| 2. Macroeconomic | ● High |
| 3. Sector Strategies and Policies | ● Moderate |
| 4. Technical Design of Project or Program | ● Substantial |
| 5. Institutional Capacity for Implementation and Sustainability | ● High |
| 6. Fiduciary | ● Substantial |
| 7. Environment and Social | ● Substantial |
| 8. Stakeholders | ● High |
| 9. Overall | ● High |

POLICY COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

LEGAL
Legal Covenants
Sections and Description

The Program Operational Manual (POM) with a comprehensive E&S Exclusion List is approved.

Conditions

| Type | Citation | Description | Financing Source |
|------|----------|-------------|------------------|
|------|----------|-------------|------------------|



I. STRATEGIC CONTEXT

A. Country Context

1. **Russia's invasion of Ukraine has imposed a severe humanitarian toll on Ukraine.** In November 2023, the United Nations Human Rights Monitoring Mission in Ukraine (HRMMU) reported that at least 10,582 civilians, including more than 587 children, have been killed, and over 19,875 have been injured since February 24, 2022. The International Organization for Migration (IOM) reports that, as of September 2023, 3.67 million people are displaced within Ukraine, 70 percent of them women,¹ and over 6.3 million are displaced abroad (according to the UNHCR). The poverty rate increased from 5.5 percent in 2021 to 24.2 percent in 2022, with 7.1 million additional people pushed into poverty, erasing fifteen years of progress. This trend persisted in 2023. Poverty rates in the territories temporarily not under government control and among those most affected have likely increased even more.

2. **Ukraine has suffered disruptions in economic activity and destruction to civilian infrastructure.** Following a contraction in 2022, Ukraine's economy has started to stabilize, with growth projected at 5.3 percent for 2023. The recent Rapid Damage and Needs Assessment (RDNA3)² quantified damage to infrastructure and buildings at US\$152 billion. In the last two months, missiles and drones have destroyed over half of Ukraine's energy generation capacity, damaging power plants and substations. This has cut electricity and heat in many cities, forced factories in some areas to close temporarily, left over 12 million people with limited or no electricity, and disrupted water supplies and heating.⁵

3. **Ukraine's public finances are under severe pressure.** The overall decline in economic activity and the inability to collect taxes in some regions led to a sharp decline in revenues. General government expenditure increased to 70 percent of GDP in 2022 and stayed above 60 percent of GDP in 2023, almost one-third more than in 2021, due to spending to meet security needs and mitigate humanitarian impacts. The authorities enacted an amended budget for 2023 in October with a general government fiscal deficit (excluding grants) of 36.9 percent of GDP. While Ukraine managed to collect 43.5 percent of GDP in revenues, financing needs reached 35.1 percent of GDP in 2022 and 36.9 percent in 2023. Financing needs are projected to remain high in 2025 and beyond. Ukraine has met its financing needs through assistance from its international partners, domestic borrowing, and the monetization of the residual financing gap.

4. **Remarkably, Ukraine's public sector has managed to sustain the delivery of critical services.** In 2022, the public administration lost over 12,000 civil servants: 4,700 remained in territories not under government control, 4,300 moved abroad, and 3,600 were drafted into the military. Since then, the pace of mobilization has accelerated. The administration struggles to find and retain qualified managers, largely due to the security situation, work pressures and uncompetitive pay. Nonetheless, the "Listening to Ukraine" survey carried out by the Bank shows that around 90 percent of social assistance is paid without disruptions, nearly all enrolled school-age children continue to receive education, and over 90 percent of healthcare facilities are open and treating patients. A recent OECD Support for Improvement in Governance and Management (SIGMA) review concluded that public administration performance remained at about the same level in 2023 as in 2021, albeit with variation across functions³. The review argues that the approval of an updated Public Administration Reform Strategy improved leadership and coordination of public administration reforms. Administrative services have also improved, with Ukraine making significant progress in the simplification of administrative procedures and the rollout of digital services. Some levels of transparency and openness have been curtailed on security grounds, but civil society organizations note that the critical information needed to hold authorities to account is usually available.

5. **Gender disparities have become more pronounced.** Men are primarily impacted by direct combat engagements, while women experience heightened rates of displacement, expanded unpaid caregiving responsibilities, elevated

¹ <https://dtm.iom.int/reports/ukraine-conditions-return-assessment-factsheet-round-4-july-august-2023?close=true>

² <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099021324115085807/p1801741bea12c012189ca16d95d8c2556a>

³ SIGMA OECD Public administration in Ukraine Assessment against the Principles of Public Administration, December 2023, https://read.oecd-ilibrary.org/governance/public-administration-in-ukraine_078d08d4-en#page1



unemployment levels, and susceptibility to trafficking and domestic violence. There is a significant need for mental health and rehabilitation services due to the inflicted physical and psychological trauma. These social impacts will require adjustments in the design of budget programs and funding allocations.

6. Ukraine is highly vulnerable to the impacts of climate change and has committed to reducing GHG emissions in the long term. Ukraine is at risk of hydrometeorological hazards and disasters such as droughts, elevated temperatures, heat waves, wildfires, soil erosion, mudflows, extreme precipitation, and flooding, which primarily affect agriculture, water resources, energy, transportation, health, urban environment, and forests. Due to climate change, Ukraine has experienced increased frequency and severity of droughts and floods, which caused fatalities, led to significant economic losses, and increased the risk of wildfires in certain oblasts. Ukraine's Strategy for Environmental Security and Adaptation to Climate Change to 2030⁴ lays out policy measures addressing climate vulnerabilities and increasing climate resilience. This operation will support Ukraine's climate adaptation and mitigation priorities by integrating climate considerations into public investment management and enhancing fiscal governance to align with climate-smart recovery needs.

7. Ukraine addressed sustainable development goals and climate action in its reconstruction efforts, aligning with a "build back better" agenda. This strategy prioritizes energy-efficient building designs, integration of renewable energy sources, and the adoption of green technologies to reduce carbon emissions and adapt to climate change. By emphasizing circular economy principles, such as material reuse and resource efficiency, Ukraine also aims to minimize construction waste and its environmental footprint. Additionally, the reconstruction agenda promotes community engagement and capacity-building initiatives to foster local resilience and ensure inclusive development across both urban and rural areas. The integration of these elements not only addresses immediate reconstruction needs but also lays the foundation for long-term sustainability, low-carbon development, and resilience against climate challenges. The focus on community participation ensures that development is inclusive, meeting diverse needs and contributing to social cohesion.⁵

B. Sectoral and Institutional Context

8. While the authorities have so far focused on national security, stabilizing the economy, and sustaining core government services, there is growing recognition that Ukraine needs to start building capacity for reconstruction, long-term development, EU accession, and income convergence. The National Government will need to increase domestic resource mobilization to finance recovery and strengthen Public Investment Management (PIM) to ensure that domestic resources and external financing are allocated to priority areas and managed efficiently. Local governments will have to strengthen their capacity to undertake reconstruction planning, prioritize investment needs, manage budgets, and implement projects.

Public Investment Management

9. Ukraine's PIM system is fragmented and characterized by poor planning and weak implementation leading to under-execution of projects and under-investment in public infrastructure. Ukraine's public capital stock decreased from 99 percent of GDP in 1996 to 56 percent in 2013.⁶ The average consolidated budget capital spending hovered around just 3 percent of GDP in 2011-2021. This under-investment is a consequence of both poor planning and implementation issues. A 2021 World Bank Diagnostic PIM Assessment,⁷ revealed that there are 12 different pathways for public investments and multiple agencies with overlapping responsibilities for project selection, appraisal, and approval procedures. The systems in place do not differentiate between projects based on their scale or impacts. There is no standardized methodology for project appraisal. PIM procedures do not integrate regulations and guidelines for environmental impact assessment and disaster risk management. Procedures are silent on climate change risks, impacts,

⁴ <https://www.kmu.gov.ua/npas/pro-shvalennya-strategiyi-ekologichno-a1363r>

⁵ <https://www.kmu.gov.ua/en/the-government-priorities/reconstruction-of-everything-that-was-destroyed> and https://neighbourhood-enlargement.ec.europa.eu/ukraine-investment-framework_en

⁶ Ministry of Finance data.

⁷ <http://documents.worldbank.org/curated/en/099220001172358412/P1724410d76e3f0940a48904740dc8b0421>



and policies as well as gender considerations. Responsibility for project monitoring is unclear. Some civil society organizations have developed methodologies for third-party monitoring to strengthen oversight of reconstruction projects. However, this practice has not been applied systematically. There are no procedures for ex-post evaluation, except for those projects financed by International Financial Institutions (IFIs).

10. Reconstruction of the extensive damage to infrastructure presents a huge challenge for Ukraine's fragile public investment management system. The recent Rapid Damage and Needs Assessment (RDNA3)⁸ identified recovery and reconstruction needs of approximately US\$486 billion. Implementation of an investment program to address these needs would require a significant increase in investment management capacity. The reconstruction challenge is compounded by the need to improve the quality of investment, building back better and greener to modernize and restructure the infrastructure stock. The government recently developed a new Digital Restoration Ecosystem for Accountable Management (DREAM), which collects, organizes, and publishes open data across all stages of reconstruction projects. However, this system is not reflected in public investment management routines and is not integrated with other Public Financial Management (PFM) and procurement information systems in real time. Reconstruction and recovery efforts will require a comprehensive approach that addresses both the immediate relief needs and the medium to long-term reconstruction, resilience-building, energy efficiency, and renewable energy priorities. Reconstruction will have to make much greater use of the private sector through a range of procurement and financing modalities, reserving scarce public resources for those investments that are unable to attract private capital.

Local Public Financial Management

11. Most local governments lack effective planning and resource allocation over longer periods. PEFA assessments reveal that some regions made progress in implementing medium-term budget frameworks, but others struggle with its effective adoption and implementation. Challenges include limited expertise in forecasting and planning, inadequate data availability, and insufficient integration of medium-term plans with annual budget cycles. Moreover, political factors often influence budget decisions, impacting the continuity and effectiveness of medium-term budgeting processes. Local governments lack clear guidelines and standardized forms for budget planning. Rudimentary performance budgeting systems are in place, but the performance indicators are not standardized and the links between budgets and performance targets are poorly developed. It has proved difficult to build capacity without a systematic training program. There is often a disconnect between strategic plans and budgets, with allocations failing to fully support outlined priorities. Medium-term budgeting was suspended in 2022. The central government will resume medium-term budgeting in the 2025 Budget. Local governments continue to budget on an annual basis.

12. Ukraine introduced gender budgeting in 2014, and it now aims to strengthen its application. With the support of the Swedish International Development Cooperation Agency (SIDA), Ukraine introduced gender budgeting to improve budget efficiency by addressing the specific needs of women and men. The Ministry of Finance issued a gender-responsive budget circular and introduced an analysis of sex-disaggregated data for budget policy planning. Challenges remain, including the lack of strong legislative support and limited stakeholder understanding⁹. Implementation of gender budgeting stopped in 2022. The Ministry of Finance intends to resume gender budgeting at the local level to improve the targeting and provision of public services.

13. Fiscal transparency at the local government level has recently deteriorated. Before February 2022, Ukraine's Open Budget Survey score for fiscal transparency had improved from 45 in 2015 to 65 in 2021, when it placed 23rd of 120 countries. Currently, the Treasury no longer publishes budget execution reports on its website. Local government reporting of budget, budget execution, and procurement information varies considerably. Civil society organizations (CSOs) note that few local governments provide information in machine-readable formats. CSOs are particularly

⁸ <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099021324115085807/p1801741bea12c012189ca16d95d8c2556a>

⁹ <https://www.sida.se/en/publications/evaluation-of-the-gender-budgeting-in-ukraine-project-2013-2020>



concerned that local governments are not required to provide detailed costing of projects. This can provide an opening for corruption through inflated procurement.

14. Debt management at the local level also faces significant challenges. Fiscal imbalances due to mismatches in revenue-raising powers and expenditure responsibilities contribute to unsustainable borrowing practices, compounded by unpredictable and delayed central transfers. PEFA local government assessments identify limited institutional capacity, fragmented legal frameworks, and inadequate coordination with the central Government as constraints to effective debt management. Revisions to the Budget Code in 2023 authorized amalgamated hromadas to borrow and extended that authority to village and settlement hromadas in March 2024. However, local governments often lack dedicated debt management units and effective systems for debt recording and monitoring.

15. The LOGICA IT system supports budgeting at the local level but requires an update. The LOGICA system enables detailed budget preparation, execution tracking, and comprehensive financial reporting in compliance with national standards. However, the system suffers from inadequate IT infrastructure, insufficient internet connectivity, limited technical expertise among local government staff, data inconsistencies, and complexities integrating LOGICA with existing legacy systems. The LOGICA system also lacks capabilities to fully support medium term and program budgeting. These challenges hinder its full utilization. The Ministry of Finance is currently preparing for an update of the LOGICA system that will strengthen the system's technical and functional capability.

Local Fiscal Governance

16. Local governments will bear much of the responsibility for reconstruction. The Government of Ukraine has pursued ambitious political, administrative, and fiscal decentralization reforms over the last decade. These reforms sought to strengthen local self-governance, improve public service delivery, and promote regional development, applying the principles of the European Charter of Local Self-Government by delegating significant responsibilities to newly organized territorial administrations. Some 10,000 local communities, towns, and settlements were consolidated into around 1,470 Amalgamated Local Governments or hromadas.

17. Local governments provide a range of services aimed at meeting the needs of their communities and ensuring the effective functioning of local infrastructure and governance. These services include education and healthcare services; essential public utilities such as water supply, sewage systems, and garbage collection; road infrastructure and public transportation services; social services such as welfare assistance, housing support, and programs for vulnerable populations; emergency services by coordinating emergency response services, including fire departments, ambulance services, and disaster management. Local governments also manage local administration services such as civil, business and property registries and permits and licenses for (re)construction and businesses. Reconstruction needs for local governments' owned assets and services vary from substantial to critical in the affected territories.

18. Local governments are heavily dependent on a system of shared taxes and transfers from the National Government, which has been disrupted. Intergovernmental fiscal relations in Ukraine are based on a combination of shared taxes and grants, including equalization and targeted transfers. Only a small share of local government resources come from Own-Source Revenues (OSRs) over which communities have direct control. Shared taxes, notably a share of the Personal Income Tax, are determined by the Budget Code. Equalization transfers take into account population and tax capacity. Additional subsidies include an education subsidy, calculated on a per capita basis, and targeted subsidies, including for investment needs. Local government revenues mostly covered recurrent expenditures. While the share of the local budgets in the general government budget exceeded 40 percent, local governments accounted for less than 20 percent of public sector investment. The recent loss of territories has disrupted the fiscal capacity of local governments.



The RDNA3 estimated local governments revenue losses at US\$3.2 billion.¹⁰ The destruction of infrastructure and the displacement of populations have further strained the fiscal resources of affected local governments.

Revenue Administration

19. Ukraine will have to overcome inefficiencies in tax administration if it is to mobilize the domestic resources needed for reconstruction. The tax to GDP ratio in Ukraine increased from just 13 percent in 2001 to just over 20 percent in 2016 but subsequently declined to 19 percent in 2021, dropping to 17 percent in 2022. Improvements in tax performance are hampered by the narrow tax base, a consequence of the large informal economy and multiple exemptions. However, tax performance is also hampered by inefficient tax administration. The ratio of tax agency staff to taxpayers is 1 to 100 in Ukraine as compared to 1 to 1,100 taxpayers in Slovenia, 407 in Poland, and 351 in Slovakia.¹¹ Around 30 percent of staff deal with registration, taxpayer services, and payment processing, whereas globally just 8 percent of staff work on these tasks. In modern tax administrations, most staff are employed in higher value-added tasks such as compliance management, investigations, and data analytics. Ukraine has made extensive use of information technology in tax administration: 100 percent of payments are made electronically, and Ukraine has a system of electronic VAT invoices. However, IT systems are fragmented, data is used transactionally rather than to support strategy and risk-based compliance management, and STS lacks automatic access to third-party information.

20. The Government of Ukraine put in place a program to tackle corruption in tax administration and strengthen the quality of taxpayer services. According to the 2019 Enterprise Survey, 36 percent of Ukrainian taxpayers reported that they were expected to give gifts when meeting with tax officials. This is five times higher than the Europe and Central Asia (ECA) average and compares to 35 percent in Albania, 13 percent in Croatia, 9 percent in Bulgaria, and 3 percent in Poland. The STS has approved an Anti-Corruption Program with specific measures to strengthen integrity in tax administration, including registering corruption risks and measures to manage them, regulating conflict of interest of tax officials, carrying out public consultations, and disclosing corruption related investigations in the STS. The STS does not have systematic feedback from taxpayers that can help assess the quality of service and performance issues from the taxpayer perspective. The last national taxpayer survey was undertaken in 2008.

C. Relationship to the Country Program and Rationale for Use of Instrument

21. The proposed Program for Results (PforR) operation is aligned with the World Bank strategy for Ukraine to provide essential services, sustain the country's administrative and service delivery capacity, and support planning and implementation of Ukraine's recovery, resilient reconstruction, and reform agenda while also assisting the Government with the EU accession process.¹² The PforR supports the priority themes under the WBG Strategy for Fragility, Conflict, and Violence 2020-2025 (Report No. 146551) and the short, medium, and long-term priorities outlined in the Proposed Roadmap.

22. The PforR is consistent with and aligned with the country's climate action strategies. The Strategy for Environmental Security and Adaptation to Climate Change to 2030¹³ addresses climate vulnerabilities and seeks to increase climate resilience. The Strategy mandates the integration of climate adaptation in local economic and social development strategies, an environmental assessment process, and an environmental impact assessment. Adaptation planning should be an integral part of local governments' efforts, focusing on rebuilding better and creating climate-resilient infrastructure. Following up on the 2050 Low Emission Development Strategy¹⁴ from 2017, the updated Nationally Determined Contributions (NDCs) submitted in 2021 commit Ukraine to the economy-wide reduction of GHG

¹⁰ <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099021324115085807/p1801741bea12c012189ca16d95d8c2556a>

¹¹ World Bank, IOTA information and Bank staff calculations

¹² <https://www.worldbank.org/en/country/ukraine>

¹³ <https://www.kmu.gov.ua/npas/pro-shvalennya-strategiyi-ekologichno-a1363r>

¹⁴ https://unfccc.int/sites/default/files/resource/Ukraine_LEDS_en.pdf



emissions by 65 percent by 2030 from 1990 levels.¹⁵ The NDCs foresee climate-smart interventions in priority sectors, including energy, transport, and land use, as well as building climate resilience knowledge and considerations for economic development planning on adaptation. The PforR supports the country's efforts on mitigation, adaptation, and resilience by supporting climate-sensitive PIM with the appraisal and selection of investments to enable the planning and building of climate-resilient and low-emissions public infrastructure at the national and sub-national levels.

23. The PforR is considered the most appropriate instrument to support the fiscal reform agenda because it focuses on reform implementation, uses government systems, supports institutional strengthening, and provides the basis for enhanced accountability. The Bank is a trusted partner for fiscal governance reform in Ukraine, contributing to the design of the PIM Reform Roadmap, PFM Reform Program, and National Revenue Strategy. The Fiscal PforR will support the implementation of these reform programs, focusing on priority reforms that will build capacity for reconstruction and recovery. The PforR complements Development Policy Operations which focus on the development and approval of policy and regulatory framework for reforms by supporting the implementation and application of policies and regulations. However, implementation of reforms that SURGE supports will require substantial technical assistance. These needs will be met partly from the Strengthening Government Capacity for Fiscal Reform Implementation (STRONG) Project (P506476) and partly by the proposed operation. Ukraine's technical assistance needs will also be met through parallel financing and technical assistance supported by Ukraine's development partners, notably the EU, IMF, and bilateral development agencies.

24. Ukraine's current challenges require rapid implementation of the PforR. While the Government program presents a long-term reform agenda, this fiscal PforR focuses on critical reforms that will address immediate needs and build foundations for the capability of the government to finance and implement recovery and reconstruction, with an expected implementation period of 30 months. Given the uncertainty of the funding envelope for Ukraine, with most operations funded by loans guaranteed by countries and grants, the PforR will have a financing gap of \$800 million to support 2025—2026 reforms with a reasonable expectation that this financing gap will be addressed. The operation will allow the government to systematically build relevant institutional capacity, responding to lessons learned from the World Bank's broader experience with fiscal governance reforms. These lessons include the need for effective consultations with the government, a clear results framework to ensure a realistic approach to reform goals and targets, flexibility during implementation, institutional collaboration, strategic communication, and change management to support implementation.

II. PROGRAM DESCRIPTION

A. Government Program

25. The Ukraine Facility Plan¹⁶ outlines the country's vision for medium-term socio-economic growth and aims to accelerate Ukraine's EU accession path, with targeted reforms across key sectors to promote growth and attract priority investments while aligning with EU standards. The reforms are also presented in the Government of Ukraine Reform Matrix¹⁷ which is the Government's tool for monitoring reform implementation. The Ukraine Facility is a dedicated EU support mechanism providing up to €50 billion for Ukraine's recovery, reconstruction, and modernization efforts from 2024 to 2027. The Facility establishes a framework that coordinates reforms and investments in public administration, fiscal governance, anti-corruption, digital transition, and green transition to enhance resilience, ensure efficient public funds use, and promote sustainable growth, in line with EU standards and principles of good governance and transparency.

¹⁵ https://unfccc.int/sites/default/files/NDC/2022-06/Ukraine%20NDC_July%2031.pdf

¹⁶ <https://www.ukrainefacility.me.gov.ua/en/>

¹⁷ <https://reformmatrix.mof.gov.ua/>



26. **Ukraine's fiscal governance reform priorities encompass PIM, Local PFM, Intergovernmental Fiscal Relations, and Revenue Administration.** The fiscal reforms are supported by dedicated strategies as summarized below. Tables 1 through 4 provide an overview of Government reform priorities and identify the key stakeholders in each of these areas. Reforms supported by the PforR are marked as (PforR) in bold.

Public Investment Management

Table 1: Government Program for Public Investment Management Reform

| Objective | Strategic Documents | Key Priorities | Internal Stakeholders | External Stakeholders |
|--|---|--|--|--------------------------------|
| To develop an effective and efficient PIM system by clarifying roles for PIM, unifying, and establishing a transparent project management cycle. | Roadmap for Reforming the Public Investment Management System ¹⁸ | <ul style="list-style-type: none"> Streamlining and simplification of PIM procedures. (PforR) Improving institutional set up and coordination for PIM. (PforR) Strengthening strategic planning at central and territorial levels. (PforR) Providing project appraisal guidance and tools. (PforR) Public consultations and third-party monitoring for accountability. (PforR) Regulatory framework for the PIM system to ensure compliance with standards. (PforR) Capacity building through training programs and centers of expertise. (PforR) Integration of climate change and gender considerations into PIM practices. (PforR) Streamlining the PIM system for reconstruction. (PforR) Addressing legislation, regulations, and guidelines related to environmental impact assessment and disaster risk management. (PforR) | MoF MoE MoF Local governments CSOs | EIB EC FCDO IMF WB |

27. **The PIM Reform Roadmap approved in December 2023 seeks to consolidate public investment management around a single project pipeline using streamlined procedures.** The roadmap aims to ensure the planning of investment projects based on strategic priorities and the medium-term budget framework, their selection in accordance with unified and transparent procedures, and clear criteria and implementation within the planned terms and funding. The roadmap defines the roles and responsibilities of the Ministry of Finance (MoF), Ministry of Economy (MoE), Ministry of Communities and Territories Development (MCTD), line ministries, and local governments. A Strategic Investment Council (SIC) will define priorities for public investments and approve a single project pipeline. Streamlined procedures will support the prioritization of resources from the budget, development partners, and provide appropriate support for implementation, monitoring, and evaluation. This system will accommodate capacity and data limitations at all levels of government, allowing simplified procedures for smaller and lower-risk projects. Integration of standalone information systems for PIM, DREAM, budgeting, procurement (Prozorro), and Treasury IT systems will improve interoperability and information exchange facilitating decision-making and contribute to accountability in PIM by providing access to digitally enabled services to people through citizens engagement module. Development of the information ecosystem requires investments in procedural harmonization and data governance and privacy.

28. **The PIM system will apply to all sources of funding for public investment, both domestic and external, and all public sector entities using public funds.** Public corporations will also be required to follow the PIM processes for projects that receive financial support from the State. Dedicated PIM Units in the MoE and the MoF will oversee the work of public corporations in developing methodologies and ensuring compliance with the PIM system. Local governments will be

¹⁸ https://mof.gov.ua/storage/files/PIM%20roadmap_final.pdf



encouraged to use the central government's methodologies and procedures for the identification, preparation, appraisal, and approval of their investment projects, including those financed by own source revenues.

29. **The EU Ukraine Facility Plan underscores the importance of Ukraine’s PIM system for reconstruction efforts.** The Facility Plan acknowledges the urgent need for improved investment capacity. It emphasizes the importance of modernizing and restructuring infrastructure while making optimal use of public resources and leveraging private sector participation. The PIM Reform Roadmap integrates EU Ukraine Plan’s goals and provides a framework for coordinated action towards rebuilding Ukraine’s infrastructure and fostering economic growth.

Local Public Financial Management

Table 2: Government Program for PFM Reforms at the Local Level

| Objective | Strategic Documents | Key Priorities | Internal Stakeholders | External Stakeholders |
|---|---|---|---|---|
| To build a modern, sustainable, and effective PFM system through improved management of fiscal risks, strengthened financial controls, enhanced transparency and accountability, and human resource management. | Strategy for Public Finance Management System Reform in 2022–2025 and related Action Plan ¹⁹ | <ul style="list-style-type: none"> Enhancing effectiveness in resource allocation and state policy formation. (PforR) Ensuring efficient execution of state and local budgets. Improving transparency, accountability, and accessibility in PFM. (PforR) Developing human resource management for public finance and public debt management. (PforR) Reform of public procurement, including strengthened monitoring. Strengthening public debt management. (PforR) Improving the system of state internal financial control. Strengthening liquidity management and ensuring debt sustainability. Promoting budget transparency and public participation. (PforR) Improving treasury servicing of budget funds. Strengthening gender and climate change analysis of budget proposals at the national and local levels. (PforR) Promoting digital transformation and IT development. (PforR) | MoF Line ministries Local governments CSOs | EC Canada FCDO IMF OECD WB |

30. **The Government has outlined reforms to strengthen the capacity of local governments and improve planning, budgeting, financing, and service delivery.** PFM reforms are coordinated across the recently approved PIM Reform Roadmap, PFM Reform Strategy, and Action Plan on Reforming Local Self-Government and Territorial Organization of Power in Ukraine for 2024 – 2027. The Government plans to resume medium-term budgeting at the local level. Links between planning and budgeting will be strengthened to improve vertical and horizontal coordination across the Government and streamline implementation. Costing methodologies will be enhanced. The revitalized budget system will include elements of gender analysis of budget programs to ensure that the needs of all social groups – women, displaced, demobilized, and those disabled – are considered. The local government budgeting IT system LOGICA is currently being upgraded to support these reforms. The budgeting system will address climate risks and impacts.

31. **The PFM priorities are consistent with the EU-Ukraine Facility Plan and the Government’s Reform Matrix.** Key components of the reform, as outlined in the EU Action Plan, include reinstating medium-term budget planning to

¹⁹ https://mof.gov.ua/storage/files/PFM_Strategy_210x2973mm_text_eng.pdf



provide fiscal predictability and stability, conducting regular spending reviews to improve expenditure efficiency and strengthen public service delivery, and improvements in fiscal risk management, particularly for local budgets.

Local Fiscal Governance

Table 3: Government Program for Local Fiscal Governance Reform

| Objective | Strategic Documents | Key Priorities | | Internal Stakeholders | External Stakeholders |
|---|---|--|--|---|---|
| To support reconstruction and recovery efforts by strengthening regional and municipal governance, addressing funding challenges, and promoting multi-level fiscal governance arrangements. | Action Plan on reforming local self-government and territorial organization of power in Ukraine for 2024 – 2027 ²⁰ | <p>Enhancement of the regulatory and legal framework in support of administrative and territorial structures and amendments to Budget and Tax Codes for financial allocation.</p> <p>Financial capacity strengthening:</p> <ul style="list-style-type: none"> Improving personal income tax crediting. Enhancing local budget equalization mechanisms. (PforR) Strengthening financial capacity of local self-governments. <p>Intergovernmental coordination:</p> <ul style="list-style-type: none"> Improving intergovernmental transfer mechanisms. (PforR) Strengthening municipalities' strategic planning and project management capacity. <p>Public engagement and consultation:</p> <ul style="list-style-type: none"> Providing methodological support for public consultations. Enhancing citizen and stakeholder engagement mechanisms. (PforR) <p>Institutional capacity building:</p> <ul style="list-style-type: none"> Strengthening local self-government associations. Developing local statistics for data analysis. Enhancing the capacity of local self-governments in recovery processes. | | MoF MCTD Local governments Other line ministries CSOs | EC Canada FCDO IMF OECD WB |

32. The Government intends to restructure transfers to address the short-term needs and align resources with needs in the reconstruction period. A new grant provides additional resources for local governments in territories not under government control, territories where government control was restored, and other territories of Ukraine negatively impacted. The grant seeks to address urgent needs for financing and compensate for lost revenues. The new formula considers revenue losses compared to before 2022 and revenue dynamics from all key local revenues, including land tax, property tax, simplified tax, and other subsidies. Additionally, the Government improved targeting through a dynamic list of affected communities approved by the Ministry of Communities and Territories Development. This allows for the timely addition or removal of local governments from the list of affected communities based on transparent criteria outlined in the Cabinet of Ministers Resolution #1364.

33. The Government will align intergovernmental transfers with service delivery needs, taking into account population displacement and relocation. All per capita transfers and the new transfer for impacted communities are based on population estimates. These estimates have not been updated since 2021. New service delivery demands have emerged, such as: registration of deaths; providing welfare assistance, housing support, and programs for vulnerable populations,

²⁰ https://mtu.gov.ua/files/2.1%20CMU%20action%20Plan_20204-2027_ENG.pdf



including displaced individuals and families, those who have lost their livelihoods, and others directly affected; providing emergency services; the reconstruction of local governments’ assets, services, and housing where possible; and issuance of permits and licenses for reconstruction activities. While conducting a census is not feasible at this time, the MoF can use administrative and survey data available to the government and information on the performance of transfers in 2023 to help improve the alignment of the transfer system with local governments’ needs.

34. The Action Plan on Reforming Local Self-government and Territorial Organization of Power in Ukraine for 2024 – 2027²¹ encompasses governance and fiscal issues. The Action Plan proposes the regulation of administrative and territorial structures, community formation and identification, the creation of prefects, local referendums, and direct democracy. The Action Plan also seeks to strengthen the institutional and financial capacity of local self-governments, improving the alignment of intergovernmental transfers with local government needs and strengthening tax administration. Reforms will enhance strategic planning and project management at the municipal level, facilitating public consultations on recovery projects, and promoting citizen and stakeholder engagement in the recovery process.

Revenue Administration

Table 4: Government Program for Revenue Administration Reform

| Objective | Strategic Documents | Key Priorities | Internal Stakeholders | External Stakeholders |
|--|--|---|-----------------------|-------------------------|
| To strengthen the integrity and trust of regulatory authorities, increase compliance with tax legislation by taxpayers and regulatory authorities, and create and implement modern digital solutions for tax administration. | National Revenue Strategy 2030 ²² | <ul style="list-style-type: none"> Strengthening integrity and anti-corruption measures within the State Tax Service. (PforR) Enhancing the quality of services through regular assessments and taxpayer feedback. (PforR) Implementing modern digital solutions for tax and customs administration. (PforR) Reforming the simplified taxation system to curb abuse and increase effective tax rates. Enhancing data security, data privacy, and access to taxpayer information. (PforR) Aligning corporate income tax rules with EU legislation. Strengthening the organizational structure and procedures of the State Tax Service. Fostering partnerships between taxpayers and the state to improve trust and the investment climate. (PforR) Reviewing the State Tax Service’s organizational structure and facilitating personnel return in affected areas. | MoF STS CSOs | EC FCDO IMF WB |

35. The National Revenue Strategy 2030 (NRS) lays out key reforms to modernize revenue policy and administration, including digitizing tax administration and strengthening revenue mobilization. The NRS highlights corruption risks in the activities of the STS, lack of public confidence in tax and customs authorities, inefficiency in tax and customs administration processes, and the need to adapt Ukrainian legislation to EU standards. NRS tax administration measures focus on strengthening compliance management, applying new digital solutions, and improving its organizational structure and staffing. The NRS will support the EU integration agenda by aligning tax policy with the EU acquis. The World Bank’s Tax Compliance Cost Survey of 2024 will inform NRS implementation. The World Bank, EU, US Treasury, IMF, and others have committed to supporting NRS implementation with technical assistance for strategic planning, change management, and the modernization of tax administration practices.

²¹ <https://www.kmu.gov.ua/en/news/uriad-ukrainy-zatverdyv-dorozhniu-kartu-detsentralizatsii>

²² <https://www.kmu.gov.ua/en/news/uriad-zatverdyv-natsionalnu-stratehiiu-dokhodiv-20242030>



B. Theory of Change

36. The Program Theory of Change addresses critical challenges in the development of the institutional framework for supporting reconstruction in Ukraine across four key result areas. Targeted interventions across all result areas will establish the institutional foundations for Ukraine's capability to help finance and implement recovery and reconstruction efforts, fostering sustainable development, resilience, and responsiveness to gender specific needs. The Program will support the 'building back better' agenda by enhancing transparency and accountability in government operations, involving citizens in reconstruction initiatives, promoting climate-smart solutions and responsiveness to gender-specific needs in public investment management and fiscal governance at the local level, and facilitating inter-institutional and donor coordination.

37. The first result area focuses on strengthening PIM. This results area supports the implementation of the PIM Reform Roadmap. Key interventions include developing a comprehensive action plan, establishing centralized coordination mechanisms, introducing, and implementing appraisal, selection, and prioritization processes for infrastructure projects that consider climate change and gender, and integrating standalone digital solutions. The operation addresses many of the obstacles to the preparation and approval of externally financed projects identified by Ukraine's external partners by simplifying PIM procedures. The Program focuses on preparation for urgent reconstruction in 2024-2025 whilst simultaneously putting in place the institutional framework for large-scale reconstruction activities. The development outcome is improved alignment of resource allocations with strategic priorities and improved efficiency in public investment.

38. The second result area aims to strengthen PFM at the local level. Interventions include the reintroduction of medium-term budgeting and enhancements to program budgeting, which will improve the capacity of local governments in Ukraine to manage debt and guarantees effectively. The Program will align budgets with climate-informed and gender-specific needs. These measures are expected to enhance the financial management capabilities of local governments, ensure sustainable and efficient use of resources, and support comprehensive and inclusive local development planning. The development outcome is a robust PFM system that promotes fiscal stability and responsive budgeting practices.

39. The third result area focuses on improving fiscal governance at the local level. The Program aims to enhance the alignment of intergovernmental transfers with updated population data, disaggregated by gender, enabling local governments to deliver administrative services, provide emergency response, manage reconstruction, and attend to the needs of vulnerable groups. This approach ensures that resources are directed where they are most needed, improving service delivery efficiency and supporting effective reconstruction efforts. The development outcome is improved alignment and more efficient distribution of resources for service delivery and reconstruction.

40. The fourth result area focuses on improvements in the integrity of revenue administration. This result area supports the NRS reforms that seek to tackle inefficiencies in tax administration and compliance. Interventions include improving integrity of tax administration, implementing competency-based HR management, and enhancing information exchange protocols. The Program focuses on NRS reforms that the Government considers to be feasible now and prepares for further reforms for the reconstruction period. Program outcomes include improved operational efficiency, enhanced transparency, and increased taxpayer satisfaction and trust. The development outcome is improved tax compliance through increased integrity and taxpayer service quality.

41. The Theory of Change for the Program is based on key assumptions that address critical challenges in reconstruction. It assumes that the targeted interventions across all four result areas will successfully establish foundational support for Ukraine's capability to finance and implement recovery and reconstruction efforts. It also assumes a conducive environment for data-sharing mechanisms, enabling transparency and accountability in government operations despite the challenging scenario. These assumptions underpin the Program's strategy to foster sustainable development, climate action, and resilience, despite the uncertainties and constraints, aiming to lay the groundwork for effective reconstruction efforts and long-term stability in Ukraine.



Underlying assumptions: (i) the PDOs are at the intermediate outcome level given the compressed project timeline, (ii) qualified personnel are available to carry out key technical tasks, (iii) data-sharing mechanisms suffice to address information constraints.

| | DEVELOPMENT CHALLENGES | PROGRAM INTERVENTIONS | OUTPUTS | INTERMEDIATE OUTCOMES | DEVELOPMENT OUTCOMES |
|------|--|--|--|---|--|
| RA 1 | Fragmented, non-standardized PIM system leading to inefficient allocation and utilization of resources. | Develop a comprehensive PIM reform plan and clarify stakeholder | PIM framework which clearly defines stakeholder roles. | Public investment projects are aligned with strategic sustainable development priorities.. (PDO1; DL1) | Pipeline of public investment projects aligns with strategic priorities and integrates climate resilience aspects, enhancing reconstruction capacity and sustainable and resilient infrastructure development. |
| | | Establish single project pipeline. | PIM procedures which ensure standardized, transparent, and capacity-appropriate project selection and appraisal. | | |
| | Project appraisal processes do not adequately account for climate and gender | Design and implement capacity building programs for new PIM system. | Integrated digital PIM IT ecosystem which connects DREAM with other PFM systems. | Improved access to standardized, comprehensive, and up-to-date information on investment pipeline, projects, and implementation, enabling informed decision-making. | |
| | | Develop digital infrastructure proposal integrating DREAM IT with PFM systems. | PIM procedures which integrate climate aspects into identification, preparation, and appraisal. | | |
| RA 2 | Fiscal transparency has deteriorated. | Reinstate and strengthen the disclosure of local budget documentation. | Disclosed local budget documentation. | Local governments publish information on their budgets, debt and service delivery and reconstruction performance. (PDO2; DL2) | Improved fiscal transparency in budget allocation for local government response and recovery. |
| | Local budgets are poorly aligned with policy objectives, including on gender and climate change. | Reinstate medium-term budgeting and enhance gender budgeting at the local level. | Medium-term budgets approved at local level based on enhanced program and gender budgeting method. | Improved capacity of local governments to manage debt and guarantees as well as budget for the medium term and align budgets with climate-informed and gender-specific needs. | Local government budgets support immediate service delivery now and in the reconstruction phase. |
| | Medium-term plans are poorly integrated with annual budget cycles, hindering effective service delivery. | Enhance guidelines for liability management at the local level, medium-term budgeting, gender and climate budgeting. | Improved reports on local debt and guarantees on a monthly basis. | | |
| | | Develop IT system specifications for local budget planning. | IT solutions which support local budget planning. | | |
| | Resource allocations are no longer aligned with service needs. | Develop a procedures and criteria for intergovernmental transfer mechanisms based on updated service needs. | Allocations of intergovernmental transfers reflect updated service needs. (DL3) | Transfers to local governments are transparent and aligned with their service delivery and reconstruction needs (PDO3) | Resource allocations are efficiently distributed in supporting reconstruction. |
| RA 4 | Inefficiencies in tax administration and low taxpayer compliance, which hinder effective revenue mobilization. | Launch taxpayer survey to gather feedback for improvements. | Taxpayer survey results are made publicly available. | STS uses compliance risk management system for large taxpayer audits. (PDO4; DL4) | Enhanced tax compliance. |
| | | Launch pilot project on implementation of tax compliance risk management. | Developed proposed legislation based on results of compliance risk management system pilot. | | |
| | Update Action Plan for the implementation of the Anti-Corruption Program. | Anti-Corruption Program Action Plan made publicly available. | | | |
| | Developed, test, and implement an IT solution for process data of the standard audit file (SAF-T UA) | New algorithms for SAF-T UA data analysis developed and existing ones improved. | | | |



C. PforR Program Scope

42. **The Program will support the implementation of selected components of the Government’s PIM Reform Roadmap, PFM Reform Strategy Action Plan, and National Revenue Strategy.** Table 5 summarizes the alignment of the Government Program and the Program supported by the SURGE PforR Operation by results areas. The Government has requested the Bank support for the implementation of reforms that are critical for reconstruction and recovery:

- **PIM Reform Roadmap**, led by MoF, including strategic and medium-term budget planning for investments; selection and approval of public investment projects for financing; management of public investments at the local level; and human and IT capacity building for public investment management.
- **PFM Action Plan** components led by MoF, including local medium-term budget planning; program-based budgeting at the local level; aligning intergovernmental transfers with expenditure assignments.
- **National Revenue Strategy**, led by MoF, including compliance management; strengthening the audit process; exchange of information for tax purposes; improvement of excise tax administration; consolidation of IT systems; improvement of STS personnel policy.

Table 5: Program Boundaries

| Results area | Government program | Program supported by the PforR | Alignment |
|---|---|---|--|
| Result area 1: Public Investment Management | | | |
| Objective | To build an effective public investment management system, projects will be planned based on strategic priorities and the medium-term budget framework, selected using transparent criteria, and implemented within planned terms and funding. Project selection will also consider climate change adaptation, mitigation, resilience, and gender considerations. | The PforR focuses on the implementation of the regulatory and methodological base for the new PIM system, strengthening institutional capacity, efficiency, transparency, and accountability in PIM, streamlining PIM processes. | The PforR and PIM Reform Roadmap are aligned. |
| Duration | 2024 – 2028 | 2024 – 2025 | The PforR supports first two years of the reform program implementation based on availability of funding. |
| Geographic coverage | National and local | National and local | The PforR and PIM Reform Roadmap are aligned. |
| Results areas | (i) The main steps in the investment cycle. (ii) Management of public investments at the local level. (iii) Single digital ecosystem of public investment management. (iv) Capacity building for public investment management. | (i) Improved coordination and implementation of climate resilient projects based on strategic priorities. (ii) Improved access to standardized, comprehensive, and up-to-date information on investment pipeline, projects, and implementation, enabling informed decision-making. | The PforR and the PIM Reform Roadmap are aligned. |
| Result area 2: Local Public Financial Management | | | |
| Objective | The PFM Reform Strategy 2022-2025 focuses on enhancing financial transparency and accountability of local self-governments. The Strategy aims to create conditions for more socially inclusive economy through increasing the effectiveness of mobilization and spending of public funds. | The PforR focuses on selected areas of PFM Reform Strategy that contribute to fiscal planning and budgeting that will better align and apply resources in line with immediate and reconstruction needs. | The PforR aligns with selected components of the PFM Reform Strategy that are high priority for the recovery and reconstruction process. |



| Results area | Government program | Program supported by the PforR | Alignment |
|---|--|--|--|
| Duration | 2022 – 2025 | 2024 – 2025 | Aligned |
| Geographic coverage | National and local | National and local | Aligned |
| Results areas | (i) Financial transparency and accountability of local self-governments. (ii) Effective execution of the state and local budgets. | (i) Improved fiscal transparency in budget allocation for local government response and recovery. (ii) Local government budgets support immediate service delivery now and during the reconstruction phase. | The PforR is aligned with selected components of the PFM Reform Strategy that are high priorities for the recovery and reconstruction process. |
| Result area 3: Local Fiscal Governance | | | |
| Objective | The PFM Reform Strategy 2022-2025 aims to increase the local self-governments' own financial resources and improve the mechanism of financial support for delegated powers. | The PforR focuses on selected areas of the PFM Reform Strategy that contribute to improvements in intergovernmental transfers in line with immediate and reconstruction needs. | The PforR and the PFM Reform Strategy are aligned in selected components, which are high priorities for the recovery and reconstruction process. |
| Duration | 2022 – 2025 | 2024 – 2025 | Aligned |
| Geographic coverage | National and local | National and local | Aligned |
| Results areas | (i) Fiscal transfers to local units. (ii) Mechanisms for financial support for delegated expenditure powers. (iii) Improved efficiency of resource allocation. | (i) Intergovernmental fiscal transfers to local governments align with service and reconstruction needs. | The PforR is aligned with selected components of the PFM Reform Strategy that are high priorities for the recovery and reconstruction process. |
| Result area 4: Revenue Administration | | | |
| Objective | The purpose of NRS 2030 is to reform the tax and customs system and improve tax and customs administration procedures necessary to ensure the potential to meet fiscal needs in the medium term and support economic growth. | The PforR focuses on selected areas of NRS that contribute to strengthened institutional capacity, efficiency, transparency, and accountability in tax administration. | The PforR and NRS are aligned in selected components of relevant areas. |
| Duration | 2024 – 2030 | 2024 – 2025 | The PforR supports the first two years of the reform program implementation based on the availability of funding. |
| Geographic coverage | National and local | National and local | Aligned. |
| Results areas | (i) Tax administration. (ii) Tax policy. (iii) Customs administration. (iv) Customs policy. | (i) Improved transparency and compliance risk management. | The PforR supports a sub-set of the NRS results areas. |
| Overall Financing | US\$ 4,745.70 million | US\$ 2,736.78 million | |

43. The SURGE PforR Program will be implemented over 30 months at an estimated total cost of US\$2,736.78 million, with US\$750 million funded by IBRD loans and IDA credit, a US\$800 million financing gap, with Government financing of US\$1,237.54 million. IBRD financing will include US\$450 million of IBRD lending/resources through credit enhancement from the Advancing Needed Credit Enhancement for Ukraine (ADVANCE Ukraine) Trust Fund supported by the Government of Japan and US\$300 million funded by the Special Program for Ukraine and Moldova Recovery (SPUR)²³ of

²³ SPUR is one of the two dedicated programs under a special IDA Crisis Facility established by the World Bank in 2023 to scale up support to address worsening development challenges due to overlapping global crises. In the spirit of global solidarity, the Crisis Facility complements international efforts to support Ukraine and Moldova.



the International Development Association (IDA) Crisis Facility on regular IBRD terms. The total funding of US\$750 million includes US\$50 million for interest capitalization under IBRD lending and US\$0.75 million for the front-end fee under IDA. An advance of US\$65 million is estimated to be provided upon Program effectiveness to kick-start the reform activities. The operation also includes prior results achieved between the date of the Program Concept Review and the date of the Legal Agreements. Prior results support foundational institutional reforms that are critical for timely Program implementation. The advance and prior results together constitute 30 percent of the operation. Further support for reform implementation in 2025 and 2026 is expected to fund the financing gap through future donor contributions in the form of guarantees and credits.

Table 6. SURGE Program Expenditure Framework (in US\$ million)²⁴

| Government Expenditure Program | 2024 Budget | 2024 SURGE PEF | 2025 SURGE PEF | 2026 SURGE PEF | TOTAL 2024-2026 SURGE PEF |
|--|-----------------|----------------|-----------------|----------------|---------------------------|
| Results area 1: Public Investment Management | 569.00 | 309.22 | 345.88 | 319.51 | 974.61 |
| Governance and management in the financial sector (3501010) | 20.30 | 2.42 | 16.73 | 15.35 | 34.50 |
| Governance and management in the treasury services sector (3504010) | 107.60 | 75.85 | 87.19 | 79.88 | 242.92 |
| Basic grant (3511050) | 441.10 | 230.95 | 241.96 | 224.28 | 697.19 |
| Results area 2: Local Public Financial Management | 31.10 | 3.03 | 25.48 | 24.37 | 52.88 |
| Economic governance and management (1201010) | 17.90 | 1.95 | 14.35 | 14.13 | 30.43 |
| Overall governance and management in the community, territorial and infrastructure development sectors (3101010) | 10.60 | 0.49 | 9.13 | 8.41 | 18.02 |
| Governance and management in the infrastructure rehabilitation and development of Ukraine sectors (3111010) | 2.60 | 0.59 | 2.00 | 1.83 | 4.42 |
| Results area 3: Local Fiscal Governance | 706.30 | 471.51 | 409.23 | 360.21 | 1,240.95 |
| Subvention from the state budget to local budgets to cover expenditures of rayon councils aimed at performing their powers (3121040) | 4.20 | 2.57 | 2.43 | 2.14 | 7.14 |
| Additional grant to local budgets for the performance of the powers of local self-government bodies in territories not under government control, territories where government control was restored, and other territories of Ukraine negatively impacted (3511280) | 702.10 | 468.94 | 406.80 | 358.07 | 1,233.81 |
| Results area 4: Revenue Administration | 275.50 | 38.61 | 220.24 | 209.50 | 468.35 |
| Governance and management in the tax policy sector (3507010) | 275.50 | 38.61 | 220.24 | 209.5 | 468.35 |
| Total financing | 1,581.90 | 822.37 | 1,000.83 | 913.59 | 2,736.79 |

44. **SURGE will use add-up capitalization to lower Ukraine’s debt service burden through to the Program closing date.** Add-up capitalization reserves an estimated amount of interest and commitment charges over the project implementation period from the overall loan amount. Ukraine’s Ministry of Finance requested use of add-up capitalization for the Program (interest accruing and fees due under the terms of the loans) supported under the Japan’s credit enhancement by letter of October 27, 2023. As such, the capitalized interest and charges will be paid out of the proceeds of the Loan. Should the actual charges and interest accrued as up to the closing date exceed the reserved amount indicated in the legal agreement, Ukraine will be responsible for paying such additional charges and interest. The added capitalization is reflected in the total Program cost in the PAD datasheet but does not impact Program Expenditure Framework (PEF).

²⁴ The average hryvnia exchange rate for 2024– UAH 40.7 per US dollar, in accordance with FY2024 State Budget calculations.



45. **The PEF comprises budgeted expenditures supporting public investment management, local PFM and fiscal governance, and revenue administration.** The PEF is sustainable, aligned with the IMF program, and included in the 2024 budget. Table 6 presents the PEF by budgetary program and year. The PEF includes the partial wage bill for the MoF, MoE, MCTD, and STS, and wage bill expenditures and operating expenditures for local governments under the Basic Grant, Subvention to local budgets and Additional Grant Allocations. The design of the SURGE Program ensures that these expenditures are not double counted in other World Bank operations. The salaries for the central government agencies financed under the SURGE PEF are less than the monthly civil service wage bill covered by the Public Expenditure for Administrative Capacity (PEACE) Project (P178946). These salaries will be deducted from the PEACE eligible expenditures. Transfers to local governments will cover the salaries of local government employees who are not considered civil servants. These salaries are not covered by the PEACE Project, the Health Enhancement and Lifesaving (HEAL) Project (P180245), or the Lifting Education Access and Resilience in times of Need (LEARN) (P504171), and Resilient, Inclusive and Sustainable Enterprise (RISE) (P505616) operations.

46. **The DLRs selected for funding under the SURGE PforR, supported by the available US\$750 million, are essential for establishing the institutional framework necessary for Ukraine’s recovery and reconstruction, addressing both immediate and long-term needs.** DLR 1.1 and 1.2 streamline and unify public investment procedures, ensuring alignment with national and climate priorities, while DLR 1.3 enhances the preparation of complex investment projects. DLR 1.4 and 1.5 improve accountability, transparency, and the integration of gender and climate considerations. DLR 2.1 to 2.3 strengthen local fiscal governance, enhancing local budget management and transparency. DLR 3.1 and 3.2 focus on allocating grants for climate-resilient recovery, and DLR 4.1 and 4.2 enhance tax administration efficiency and integrity, critical for sustainable fiscal management. These measures collectively build robust institutional foundations for effective and resilient reconstruction efforts.

47. **Ukraine has robust oversight mechanisms to ensure the effectiveness and transparency of program expenditures.** Regular audits and financial reviews will be conducted, and the Program will be subject to technical and financial assessments to ensure timely execution at envisaged costs. A detailed Program Operational Manual (POM) will be developed, outlining fiduciary reporting arrangements, and approved by the Ministry of Finance.

D. Program Development Objective(s) (PDO) and PDO Level Results Indicators

48. **PDO Statement:** To establish the institutional foundations for implementation and financing of climate-smart recovery and reconstruction.

PDO Level Indicators

Implementation capability:

- **PDO Indicator 1:** Public investment projects are aligned with strategic sustainable development priorities. This indicator assesses the government’s ability to prioritize and execute public investment projects in accordance with strategic and climate change objectives.
- **PDO Indicator 2:** Local governments publish information on their budgets, debt and service delivery and reconstruction performance. These indicators measure the transparency and accountability of budget spending, including on response and recovery efforts.
 - **PDO Sub-Indicator 2.1:** Local governments publish gender information on their budgets and service delivery and reconstruction performance.

Financing capability:

- **PDO Indicator 3:** Transfers to local governments are transparent and aligned with their service delivery and reconstruction needs.



This indicator measures the consistency between the amount of intergovernmental transfers to local governments and indicators of their service and reconstruction needs.

- **PDO Indicator 4:** STS uses compliance risk management system for large taxpayer audits.

This indicator assesses improvements in the government's tax compliance processes, which will improve revenue mobilization for recovery and reconstruction.

E. Disbursement Linked Indicators and Verification Protocols

49. **The Program includes four Disbursement-linked Indicators (DLIs).** The DLIs under the Program have been developed to establish the institutional foundations for implementation and financing of climate-smart recovery and reconstruction. DLI 1 is linked to the first Results Area (Public Investment Management), DLI 2 to the second Results Area (Local Public Financial Management), DLI 3 to the third Results Area (Local Fiscal Governance Reforms), and DLI 4 to the fourth Results Area (Revenue Administration). The DLI annexes present tentative DLRs for the potential Additional Financing (AF) when and if that materializes. These DLRs will be finalized at the time of the AF.

50. **Achievement of DLRs will be determined by Independent Review or by an Independent Verification Agency (IVA) to be contracted by MoF, under the STRONG IPF, using Terms of Reference and qualifications satisfactory to the World Bank.** The DLIs will be verified based on review of official data and reports supplemented by evidence from third parties such as from surveys. The verification protocols for DLIs and DLR are presented in Annex 1. MoF will be responsible for the compilation and submission of evidence for verification. Independent Review will be undertaken by an Independent Reviewer, a technical specialist selected by the Program Implementing Agency and acceptable to the Bank. Independent Review will be used where the DLR can be verified with limited documentation and consultations and requires a narrow range of technical skills. The IVA will verify the achievement of DLRs that entail extensive documentation, evidence from multiple sources, and require a broader range of technical skills. The Program Implementing Agency will draft the ToRs for the IVA and will seek inputs from the World Bank before finalization. The IVA will be contracted by the Program Implementing Agency and funded through the STRONG IPF. Independent Reviewer and IVA reports will support MoF claims to the World Bank for the release funds.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

51. **The Ministry of Finance (MoF) will be the Program Implementing Agency.** The First Deputy Minister of Finance will be the Project Coordinator and primary contact point for the World Bank on Program-related issues. MoF will: monitor and report on Program execution and results; facilitate, problem-solve and support Program implementation; establish and operate suitable fiduciary procedures for PforR financing, as agreed with the World Bank; facilitate the flow of funds from the budget to support Program implementation, including transfers to local governments and their expenditures; contract an IVA to verify the achievement of DLIs and DLRs; compile and submit evidence to the IVA for the verification of the achievement of DLIs and DLRs and submit verification reports to the World Bank according to verification protocols; arrange internal and external audits; and coordinate disbursements with the World Bank following the achievement of DLIs and DLRs. MoF has demonstrated its capacity to manage complex multi-agency projects during two years of implementing the PEACE in Ukraine project.

52. **The Ministry of Economy and Ministry of Communities and Territories Development will be Program Implementing Partners.** The Program Implementing Partners will be responsible for: undertaking the reforms and actions necessary to project results in their areas of competence; identifying and managing technical assistance needed to support Program implementation; providing documentation and facilitating consultations to provide evidence of the achievement of DLIs and DLRs under the Program; and reporting on the progress in the implementation of reforms to MoF as the Implementing Agency.



53. **A Program Steering Committee will facilitate coordination between the Program Implementing Agency and Program Implementing Partners.** The Steering Committee will meet periodically to review Program implementation status and identify and resolve implementation issues. The First Deputy Minister of Finance will convene and chair meetings of the Steering Committee. The Program Steering Committee will complement interagency working groups established by the Ministry of Finance to manage the reform program at a technical level, notably the Public Investment Working Group, which leads the preparation of the Public Investment Roadmap, and the Strategic Investment Council as the decision-making body at the political level that will oversee the operation of the PIM system.

54. **MoF will establish a Program Implementation Unit (PIU).** The PIU Director will report to the Project Coordinator. The PIU will be financed by and shared with the STRONG Project. The PIU will provide administrative support to MoF in fulfilling its functions as a Program Implementing Agency. The PIU will be based in MoF. The PIU will: serve as secretariat to the Program Steering Committee; assist Program Implementing Partners prepare Program implementation and results reports based on information provided by the Implementing Partner; identify, procure, and manage technical assistance supporting Program implementation financed through the STRONG Project; contract and oversee the work of the IVA; collect and transmit documentation to and facilitate consultations with Government officials for the IVA to provide evidence of the achievement of DLIs and DLRs under the Program.

B. Results Monitoring and Evaluation

55. **The Monitoring and Evaluation (M&E) framework for the SURGE PforR will assess progress toward the PDO of enhancing Ukraine's capacity to implement and finance climate-resilient recovery and reconstruction.** Four key indicators will be utilized to measure both implementation and financing capabilities. These indicators include assessment of the alignment of public investment projects with sustainable development priorities, transparency in local government budget allocations for recovery efforts, the efficient distribution of intergovernmental transfers to support the reconstruction needs, and improvements in tax compliance for enhanced revenue generation.

56. **The SURGE PforR will establish a comprehensive M&E framework, outlining the roles and responsibilities of key stakeholders and the procedures for data collection, analysis, and reporting while ensuring adequate data privacy protocols are established.** The Ministry of Finance will serve as the lead agency for M&E activities, working closely with implementing agencies and other relevant stakeholders. Many DLIs and DLRs will be tied to budget routines, providing an effective enforcement mechanism for actions taken by local authorities and line agencies. This approach will reduce the need for project-specific reporting arrangements and establish a time-bound calendar for disbursements.

57. **Baseline data was collected at the start of the SURGE PforR to establish a benchmark for measuring progress.** Targets are set for each indicator, based on realistic expectations and the project's objectives. Regular data collection exercises will be conducted to assess progress towards these targets, allowing for adjustments to implementation strategies as needed. To ensure the quality and reliability of M&E data, rigorous quality assurance mechanisms will be put in place, including regular data validation exercises and independent verification missions. The PforR will proactively identify and mitigate potential risks to the achievement of its objectives through the implementation of risk management strategies.

C. Disbursement Arrangements

58. **MoF will submit disbursement requests supported by Independent Review and IVA Reports that verify achievement of the DLRs.** Following due diligence review, the World Bank will disburse funds to a segregated US Dollar-denominated account of the State Treasury in the National Bank of Ukraine (NBU), which will then be converted and credited to the government State Treasury account in Hryvnia. Funds may be disbursed on partial achievement of results or against DLIs yet to be achieved, based on a request by the Borrower, MoF. Advances and prior results will not exceed 30 percent of the Program amount. The verification protocols for DLIs and DLRs are presented in Annex 1.



59. **The disbursement arrangements for the SURGE PforR will ensure efficient and timely financing to support the Government of Ukraine while maintaining accountability for results.** Up to 30 percent of Bank financing is allocated for advances and prior results to support the early implementation of critical activities outlined in the expenditure framework assessment. These advances will provide essential liquidity to the government of Ukraine, enabling it to initiate key interventions promptly.

60. **Disbursements against DLIs will be contingent upon the achievement of specific performance targets outlined in the Results Framework.** DLIs that are expected to be achieved prior to the date of the operation's legal agreement will be identified and linked to disbursement schedules, ensuring that financing is released only upon the successful attainment of predetermined milestones. This approach incentivizes results-based implementation and promotes accountability for the effective utilization of funds.

61. **Disbursement arrangements for the first three DLIs allow for scalability based on the level of achievement.** This flexibility will enable the government of Ukraine to access additional financing proportional to the degree of progress made toward meeting DLI targets. Scalability mechanisms will be established through a transparent and performance-based framework, with predetermined thresholds triggering incremental disbursements. This approach promotes a dynamic response to evolving project needs and encourages continuous improvement in PforR performance.

D. Capacity Building

62. **The World Bank will support the implementation of the Program and provide technical assistance to address the technical, fiduciary, environmental, and social issues that arise during implementation.** This support will include support from the World Bank team in reviewing implementation progress, resolution of emerging implementation issues, monitoring systems performance, and monitoring compliance with legal agreements. The implementation support plan will focus on the first twelve months. The skills mix required for implementation support will include technical, fiduciary, environmental, and social skills. To address the risks of staff turnover, the Program will implement a proactive capacity-building strategy that includes recruitment and systematic training programs for key staff of the MoF, MoE, and MCTD.

63. **Capacity-building activities will be financed through the Strengthening Government Capacity for Fiscal Reform Implementation (STRONG; P506476), a parallel Investment Project Financing (IPF), rather than being included in the SURGE PforR.** The STRONG Project will finance long-term technical advisors for PIM Units in the MoF, MoE, and MCTD, advisory support for strengthening PIM information systems, technical assistance for the Ministry of Communities and Territories Development and selected local governments in preparing territorial development plans and designing infrastructure projects, and the establishment and operation of a combined STRONG and SURGE PIU. The MoF will be the Implementing Agency for the STRONG Project, with the MoE and MCTD as implementing partners.

64. **The World Bank will coordinate closely with other development partners to promote a consistent approach and efficient allocation of technical assistance resources for reconstruction planning and PIM.** Key partners include the European Commission (supporting PIM processes and regional and local development planning), USAID (supporting local government planning), UK FCDO (supporting public investment management and the DREAM information system development), IMF (supporting expenditure planning and PIM reforms), and Global Affairs Canada, GIZ, and SECO (supporting fiscal decentralization and PFM reforms at the local level).

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

65. **The SURGE PforR aligns with the Government of Ukraine reform program, builds on previous PFM reform efforts, and help addresses the immediate and longer-term consequences of invasion.** The PFM Reform Strategy Action Plan, the PIM Reform Roadmap, and the National Revenue Strategy 2030 provide a robust operational framework to advance key reform priorities for strengthening institutions. The PFM Action Plan builds on the lessons from the latest World Bank



PEFA Assessments for central government and local governments. The MoF prepared the PFM Reform Strategy Action Plan through a consultative process with the development partners. The PIM Roadmap was developed based on recommendations from the WB and the IMF, and good European practices, considering the need for rapid recovery and reconstruction.

66. The Program Development Objective (PDO) focuses on enhancing Ukraine’s institutional foundations for implementation and financing of climate-smart recovery and reconstruction. The Program’s governance structure ensures effective coordination and collaboration among key stakeholders, with defined roles and responsibilities to ensure accountability and transparency. Results areas encompass improvements in public investment management, fiscal governance at the local level, and the integrity of revenue administration. Intermediate indicators measure alignment of intergovernmental transfers with immediate and reconstruction needs, satisfaction with revenue administration services, alignment of public investment projects with strategic priorities, and transparency of local government budget allocations. Monitoring and evaluation strategies include the collection of administrative data, stakeholder engagement and feedback mechanisms. Annex 1 presents a more detailed Program Technical Assessment.

67. Public Investment Management. The establishment of standardized methodologies for project appraisal and selection, centralized coordination and project approval, and the development of supporting digital solutions will improve efficiency and effectiveness in PIM ensuring that only viable, strategically important and implementation ready projects are funded. The consideration of climate change mitigation, adaptation, and resilience in project identification, screening and appraisal will improve the long-term viability and strategic alignment of reconstruction efforts.

68. Local Public Financial Management. Transparency and improvements in strategic planning and budgeting at the local level directly contribute to improved public service delivery and fiscal governance by improving responsiveness, efficiency, and effectiveness in the application of funds. Improvements in PFM at the local level will contribute to the creation of resilient, self-sufficient local governance structures necessary for long-term growth.

69. Local Fiscal Governance. The revision of intergovernmental transfer mechanisms and improvements in fiscal risk management will contribute to more equitable and efficient resource allocation, enhancing the financial autonomy and resilience of local governments, enabling them respond to locally identified needs.

70. Revenue Administration. Reforms in revenue administration that enhance risk management systems and establish anti-corruption measures will build taxpayer trust, improve tax collection efficiency, and reduce administrative costs, and ultimately contributes to increases in revenue generation.

Climate Change

71. Climate Co-Benefits. The Program will integrate climate considerations, such as climate-informed risk assessments, energy efficiency, and GHG emissions, into the project screening and appraisal methodology used to assess all public investments. Disbursements will be linked to the number of projects appraised and selected based on these new procedures. State budget programs for capital intergovernmental transfers aimed at regional reconstruction will include goals related to climate resilience and low-carbon development. The program budgeting methodology will promote and integrate key indicators for strategic objectives for gender equality, climate change resilience, low-carbon development, and citizen participation. This methodology will be rolled-out to all regional and local governments.

72. Paris Alignment. The Program aligns with the Paris Agreement’s goals on mitigation and adaptation. The World Bank Climate Change and Disaster Risk Screening Tool indicates that the Program is not materially at risk from climate hazards, nor is it likely to negatively impact Ukraine’s low-carbon development pathways. Consequently, the Program is considered to have low or no risk concerning the country’s mitigation, adaptation, and resilience efforts.

73. Mitigation risks. The Program is consistent with Ukraine’s commitment to transitioning to a low-carbon development pathway and in line with the country’s NDCs. GHG emissions resulting from Program activities will be low: the Program activities are public administration reforms and capacity building, without physical investments that could be affected by



climate change. The reforms supported by the Program will contribute to significantly reduced GHG emissions in the long term. The regional development planning and PIM reforms will integrate the assessment of climate change adaptation and mitigation through the project screening and appraisal process. Parallel technical assistance through the STRONG Project will promote the use of green, energy efficient and low-emissions technologies in project design.

74. **Adaptation risks.** The Program will support Ukraine's adaptation efforts and enhance resilience to climate hazards by mainstreaming climate risks screening into regional development planning and project PIM infrastructure and public service investments. The Program will strengthen the capacity of central and local governments to plan, build, and operate more resilient public infrastructure.

Gender

75. **SURGE addresses significant gender gaps, such as increased displacement, expanded unpaid caregiving responsibilities for women, elevated unemployment levels, and reintegration challenges faced by demobilized soldiers.** Key interventions include reintroducing and strengthening gender-responsive budgeting at the local level, incorporating gender aspects into investment project preparation and appraisal, and enhancing stakeholder and citizen engagement. While the Program is not expected to close gender gaps immediately, it establishes institutional foundations for improved gender budgeting and the integration of gender considerations into PIM. This involves developing methodologies for gender assessments in project planning and enhancing transparency in budget allocations. Over time, these efforts will ensure that budget policy programs and public investment projects address gender-differentiated needs, contributing to social cohesion, sustainable and equitable reconstruction, and development in Ukraine. Progress will be measured by two indicators, "Local governments publish gender information on their budgets, service delivery, and reconstruction performance" and "Public investment projects are prepared and appraised based on new methodologies that include gender considerations".

Citizen Engagement

76. **The Program will facilitate citizen engagement by enhancing public participation and transparency in strategic planning through public consultations and stakeholder engagement mechanisms.** SURGE supports local governments publication of detailed information on budgets, debt, and service delivery, integrating gender and climate data to promote inclusive decision-making. However, it is important to note that the ongoing martial law in Ukraine imposes certain restrictions on public freedoms and engagement activities, thereby hindering the full extent of citizen participation.

Grievance Redress

77. **Communities and individuals who believe that they are adversely affected because of a Bank supported operation, may submit complaints to the existing program grievance mechanism or the Bank's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the GRS, visit <https://www.worldbank.org/GRS>. For information on how to submit complaints to the AM, visit <https://accountability.worldbank.org>.

B. Fiduciary

78. **The Integrated Fiduciary Systems Assessment (IFSA) for the SURFGE PforR concluded that the MoF, the MoE, and the MCTD have demonstrated capacity to manage complex projects.** MoF will lead the implementation, supported by its subordinated agencies, the State Treasury and State Tax Service, along with the MoE, MCTD, and local governments.



A Program Implementation Unit (PIU) will be established within MoF to perform fiduciary functions and assist other implementing partners. MoF has successfully implemented World Bank-financed projects. However, some key risks were identified, including low competition in tenders, potential overuse of direct contracting, and risks of contracting firms debarred by the WB. Financial management risks include potential budget shortfalls, coordination complexities between various entities, limitations in internal audit capacities, and the necessity for additional financial management staff at MoF. Despite these risks, the institutional capacities and fiduciary systems are considered adequate, provided that the agreed mitigation measures are implemented in a timely manner.

79. **The Program public financial management arrangements include a robust budget classification system regulated by a Budget Code, which ensures all transactions are tracked throughout budget formulation, execution, and reporting.** Medium-term budgeting, which was suspended in 2022, resumed at the central level with the 2025 budget preparation process. The State Treasury manages treasury operations, ensuring that payments are processed within budget allocations through a well-documented treasury system. Accounting and financial reporting systems across the implementing agencies are generally adequate, although the program will rely on manually consolidated financial statements prepared by MoF.

80. **Procurement methods under the Program include open competitive tendering and direct contracting through the ProZorro system, which enhances transparency and efficiency.** Procurement under the Program will be limited to goods and consulting services of relatively low value. All procurement will be conducted at the central level by the main implementing units. These agencies follow the national Public Procurement Law. Use of the e-procurement system is mandatory. Internal controls across the public sector are strong, with adequate commitment and payroll controls in place. However, internal audit units in implementing agencies vary in capacity, and the Program will primarily rely on external audits by the Accounting Chamber of Ukraine (ACU). If ACU is unavailable, private audit firms may be contracted.

81. **Ukraine's anti-corruption institutions will oversee Program implementation.** The National Anti-Corruption Bureau of Ukraine (NABU) and the Special Anti-Corruption Prosecutors Office (SAPO) investigate and prosecute high-level corruption cases. The SURGE Program is subject to the Bank's Anti-Corruption Guidelines, and the Ministry of Finance has agreed to inform the Bank of any credible and material allegations of fraud and corruption arising in the SURGE and report on how these cases are addressed.

82. **Risk mitigation actions include hiring additional staff at MoF for financial management procedures, consolidating financial data from respective agencies, and monitoring the sufficiency of state budget allocations.** Proper procurement packaging and maintaining competition in procurement will mitigate the risk of low competition and overuse of direct contracting.

83. **During Program implementation, fiduciary support will include monitoring progress, assessing the adequacy of program funds, evaluating financial management and procurement systems, ensuring compliance with anti-corruption guidelines, and reviewing audit reports.** Key Performance Indicators (KPIs) will be used to monitor the performance of fiduciary systems, including budget adequacy, treasury management, financial reporting, and audit response.

C. Environmental and Social

84. **The Program will partially finance transfers to 1,470 hromadas.** The majority of these transfers (80-90%) will be allocated to salary payments for local government officials and for government agency operating expenditures. The central and local governments of Ukraine will share responsibilities for planning and implementing public investment projects, including infrastructure and social services.

85. **Under Result Area 1, a dedicated Project Investment Management unit will be established at the Ministry of Finance by August 2024.** PIM specialists in local governments will be trained on E&S issues by February 2025 to ensure comprehensive coverage of E&S guidance. By June 2025, 80 percent of selected projects will be appraised and approved, incorporating E&S considerations.



86. **Under Result Area 2, the Program will enhance the capacity of local governments to manage public finances effectively, ensuring transparency, accountability, and inclusivity in budget planning and execution.** Performance indicators for medium-term and program budgeting at the local level will include gender and climate-specific data by November 2024, and will encompass other relevant E&S data, such as inclusion of vulnerable groups, citizen engagement, and environmental protection beyond climate considerations. The integration of E&S considerations into fiscal governance practices will be essential in minimizing the potential negative impacts of fiscal policies and ensure that vulnerable groups are not disproportionately affected by fiscal measures. Mechanisms for stakeholder engagement, grievance redress, and transparent reporting will be established to support inclusive and effective fiscal governance.

87. **Additional transfers will be provided to affected territories under Result Area 3.** These areas will manage risks through emergency preparedness and response measures. The implementation of standardized financial management practices will be critical in mitigating E&S risks associated with managing the funds at the local level.

88. **Improvements in revenue administration under Result Area 4 will focus on enhancing the integrity and compliance of revenue collection processes.** The NRS foresees the implementation of citizen engagement and information disclosure components in 2025—2027. The Strategy seeks to increase the efficiency and effectiveness of revenue collection, strengthen compliance, and ensure that revenue policies are fair and equitable. Incorporating E&S considerations into revenue administration practices will help address issues such as the potential impact of tax policies on different socio-economic groups and ensure that revenue collection does not adversely affect vulnerable populations. The development of robust institutional frameworks and capacity-building initiatives will be essential in achieving these goals.

89. **The ESSA conducted for the proposed Program has identified potential E&S risks and impacts of the proposed Program, assessed the adequacy of the existing E&S systems of the government and highlighted the importance of robust E&S management systems, including applicable laws and regulations, institutional capacity, and enforcement mechanisms at both the central and local government levels.** The key adverse environmental impacts are the downstream effects of projects for future implementation, such as: construction and operation-related pollution (including air, water, soil pollution; waste management); natural resources utilization; biodiversity and cultural heritage impacts; and worker and community health and safety. The key potential adverse social impacts are also the downstream effects of projects, such as: inadequate labor and working conditions; land acquisition and involuntary resettlement; potential socio-economic inequities of budget transfers to municipalities and lack of inclusion of vulnerable groups; and social tensions, such as inadequate grievance mechanism and war hazards (ERW, air strikes) and their impact on in-person activities. While the lack of qualified personnel and enforcement capacity of the E&S systems within the government institutions has been identified as one of the key obstacles to the effective management of public investment, the ESSA has proposed a series of measures and actions to address the identified gaps to ensure that the proposed Program will be managed in a manner consistent with the Bank's PforR Policy. Relevant measures and actions are embedded in the exclusion list, relevant DLIs/verification protocols and the PAP.

90. **A comprehensive list of stakeholders consulted for the program preparation includes relevant ministries, agencies, CSOs, academia, research institutes, private sector entities, and development partners.** The draft ESSA was disclosed publicly in July 2024 before appraisal. The public consultations will be conducted in an inclusive manner in August 2024. The roles and responsibilities of various departments involved in the program, including those responsible for E&S aspects and grievance redress mechanisms, are clearly defined to ensure effective implementation and oversight.

V. RISK

91. **The overall risk to achieving the PDO is High.** This reflects the unpredictable security situation and challenging economic and political context arising from the invasion. These risks cannot be fully mitigated. The ratings for the risk categories outlined below are residual risks after considering robust mitigation measures.



92. **The political and governance risk is High.** The political and governance risk is High. Government policy is focused on the EU accession process and Ukraine Facility Plan. The Program's alignment with these reforms mitigates political risks. However, the residual political risk of a continued/expanded invasion causing delays in reforms remains High. Governance risks are high due ongoing corruption concerns. Transparency and openness have been reduced for security reasons, increasing corruption risks. The Program mitigates governance risks by promoting transparency and citizen engagement.

93. **The macroeconomic risk is High.** Further macroeconomic shocks or fiscal deterioration may impact the implementation of proposed policy reforms. GDP growth recovered to 5.3 percent in 2023, but the macroeconomic situation remains fragile due to fiscal pressures and destruction of key infrastructure. The fiscal deficit widened to 27 percent of GDP in 2023 due to increased defense expenditure. The residual risk that macroeconomic conditions undermine project implementation remains High.

94. **The sector strategies and policies risk is Moderate.** The Program focuses on reforms with strong stakeholder ownership. The PFM Reform Strategy Action Plan, PIM Reform Roadmap, and National Revenue Strategy 2030 were developed through consultation with development partners. However, the predictability and financial sustainability of government funding are not assured. The Program mitigates this risk by providing significant financing for fiscal governance reform.

95. **The technical design risk is Substantial.** The compressed implementation timeline and focus on fiscal management reforms limit the scope for final outcomes, focusing on outputs and intermediate outcomes. The complex reform agenda and limited capacity of local governments could slow disbursements. The Program mitigates these risks by linking DLIs and DLRs to budget routines and providing significant technical assistance through the parallel STRONG IPF. However, the residual risk remains Substantial due to the evolving security situation.

96. **Institutional capacity for implementation and sustainability risks are High.** The state of emergency and loss of key personnel have undermined Ukraine's ability to exercise core governmental functions, especially in southern and eastern regions. Ministries lack the staff needed for effective PIM functions. The Program will mitigate these risks with a proactive capacity-building strategy, including recruitment and systematic training programs.

97. **Fiduciary risks are Substantial.** The current situation increases the risk that Program implementing agencies may not effectively carry out fiduciary functions. Contributing factors include the inability of Bank staff to perform on-site supervision at the local level due to security concerns and limited capacity of Program Implementing Agencies. The Program will mitigate these risks by implementing measures in the Program Operational Manual and providing enhanced supervision and periodic training. Despite these measures, the residual risk remains Substantial.

98. **Environment and social risks are Substantial.** Environmental and social risks are Substantial due to the downstream effects of future reconstruction projects. Key environmental risks include pollution and biodiversity impacts, while social risks involve potential land acquisition, physical and economic displacement, labor and community health and safety issues, as well as socio-economic inequities. The Program incorporates measures to address these risks, such as appropriate E&S staffing arrangement and institutional capacity development of government institutions, preparation of E&S guidelines for the PIM, enhancing gender inclusion in budgeting, inclusive citizen engagement, and implementing screening criteria to exclude activities with significant environmental and social impacts.

99. **Stakeholders risk is High.** The operation requires effective interinstitutional coordination among several federal and local agencies. Coordination is challenging due to fragmented government processes. The Program will mitigate these risks by assigning the Ministry of Finance as the Program Implementing Agency and establishing a Program Steering Committee. Despite these measures, the residual stakeholder risk remains High.



ANNEX 1. RESULTS FRAMEWORK MATRIX

Program Development Objective(s)

To establish the institutional foundations for implementation and financing of climate-smart recovery and reconstruction.

PDO Indicators by Outcomes

| Baseline | Closing Period |
|--|----------------|
| Foundations of Implementation Capability | |
| Public investment projects are aligned with strategic sustainable development priorities. (Percentage) ^{DLI} | |
| May/2024 | Dec/2026 |
| 0 | 80 |
| Local governments publish information on their budgets, debt and service delivery and reconstruction performance. (Number) ^{DLI} | |
| May/2024 | Dec/2026 |
| 0 | 400 |
| ➤ Local governments publish gender information on their budgets, service delivery and reconstruction performance. (Number) ^{DLI} | |
| May/2024 | Dec/2026 |
| 0 | 400 |
| Foundations of Financing Capability | |
| Transfers to local governments are transparent and aligned with their service delivery and reconstruction needs. (Number) | |
| May/2024 | Dec/2026 |
| 0 | 100 |
| STS uses compliance risk management system for large taxpayer audits. (Percentage) ^{DLI} | |
| May/2024 | Dec/2026 |
| 0 | 60 |

Intermediate Indicators by Results Areas

| Baseline | Closing Period |
|---|----------------|
| RA 1: Public Investment Management | |



| | |
|--|----------|
| The Single Project Pipeline is approved by the Strategic Investment Council. (Yes/No) | |
| May/2024 | Dec/2026 |
| No | Yes |
| Public investment projects are prepared, appraised, and selected based on a uniform definition and new methodologies. (Number) | |
| May/2024 | Dec/2026 |
| 0 | 200 |
| ➤ Public investments projects are prepared and appraised based on new methodologies that include gender considerations. (Number) | |
| May/2024 | Dec/2026 |
| 0 | 50 |
| PIM IT ecosystem supports public investment project management across the project cycle. (Number) | |
| May/2024 | Dec/2026 |
| 0 | 200 |
| Climate change is integrated into the PIM system. (Yes/No) | |
| May/2024 | Dec/2026 |
| No | Yes |
| People using digitally enabled services (enhanced services) (Number of people) ^{CRI} | |
| Jul/2024 | Dec/2026 |
| 0 | 10,000 |
| ➤ People using digitally enabled services (enhanced services) - Female (Number of people) ^{CRI} | |
| Jul/2024 | Dec/2026 |
| 0 | 5,000 |
| ➤ People using digitally enabled services (enhanced services) - Youth (Number of people) ^{CRI} | |
| Jul/2024 | Dec/2026 |
| 0 | 2,000 |
| RA 2: Local Public Financial Management | |
| Local governments implement medium-term budgeting, building on program and gender budgeting methods. (Percentage) | |
| May/2024 | Dec/2026 |
| 0 | 50 |
| Local government budgeting ICT system LOGICA supports performance, medium-term, gender and climate-informed budgeting. (Percentage) | |
| May/2024 | Dec/2026 |
| 0 | 50 |
| Local government staff trained on PIM and integration of gender and climate change considerations. (Number) | |
| May/2024 | Dec/2026 |
| 0 | 300 |
| Transparency requirements for local budgets are approved. (Yes/No) | |
| May/2024 | Dec/2026 |
| No | Yes |



| | |
|--|----------|
| RA 3: Local Fiscal Governance | |
| Allocations of intergovernmental transfers reflect updated service needs. (Percentage) ^{DLI} | |
| May/2024 | Dec/2026 |
| 0 | 50 |
| RA 4: Revenue Administration | |
| Taxpayer surveys are conducted. (Yes/No) | |
| May/2024 | Dec/2026 |
| No | Yes |
| STS IT systems support standardized audit files. (Yes/No) | |
| May/2024 | Dec/2026 |
| No | Yes |
| STS approves and implements an Anticorruption Action Plan. (Yes/No) | |
| May/2024 | Dec/2026 |
| No | Yes |

Disbursement Linked Indicators (DLI)

| Period | Period Definition |
|---------------|-----------------------|
| Prior Results | By September 30, 2024 |
| Period 1 | By December 31, 2024 |
| Period 2 | By March 31, 2025 |
| Period 3 | By June 30, 2025 |
| Period 4 | By September 30, 2025 |
| Period 5 | By December 31, 2025 |
| Period 6 | By March 31, 2026 |
| Period 7 | By June 30, 2026 |
| Period 8 | By December 31, 2026 |

| Baseline | Prior Results | Period 1 | Period 2 | Period 3 | Period 4 | Period 5 | Period 6 | Period 7 | Period 8 |
|--|---------------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1:Public investment projects are aligned with strategic sustainable development priorities. (Percentage) | | | | | | | | | |



| | | | | | | | | | |
|---|---|--|--|---|---|--|--|--|--|
| 0 | <p>DLR 1.1. (i) The Cabinet of Ministers has approved the PIM Action Plan that includes requirements for public investments to integrate climate change and energy efficiency considerations. DLR 1.1. (ii) MoE and MoF have established and appointed core staff members of PIM units.</p> | <p>DLR 1.2. (i) The Cabinet of Ministers has established the Strategic Investment Council (SIC) as the sole authority for the approval of a single project pipeline of public investment project concepts. DLR 1.2. (ii) SIC approved a single project pipeline of project concepts for 2025 budget based on prioritization criteria that include the alignment with strategic priorities and climate considerations; and MoF only included projects in the 2025 Budget submission</p> | <p>DLR 1.3. (i) The Cabinet of Ministers approved amendments to the Budget Code establishing the Medium-Term Priority Public Investment Plan and a unified definition of public investment and public investment projects. DLR 1.3. (ii) MoF published information on projects selected for inclusion in the 2025 Budget Submission prior to parliamentary approval.</p> | <p>DLR 1.4. (i) The Cabinet of Ministers has approved PIM Methodologies for project identification, prioritization, preparation, appraisal, and approval that include gender equality and climate change considerations. DLR 1.4. (ii) SIC approved a single project pipeline for 2026-2028 based on a prioritized list of projects concepts at the central level and relevant projects at the local level which includes gender and climate change considerations.</p> | <p>DLR 1.5. (i) The Cabinet of Ministers has approved revised regulations and specifications for the DREAM system that contain the new public investment management procedures and build back better approach, including climate change adaptation and mitigation assessment, and civil society feedback modules. DLR 1.5. (ii) The Cabinet of Ministers has approved specifications for information exchange between the DREAM system, Prozorro, Treasury, and</p> | | | | |
|---|---|--|--|---|---|--|--|--|--|



| | | | | | | | | | |
|--|---------------|---|----------------|---|--|------|------|--------|------|
| | | approved by SIC. | | | Budgeting systems and the interoperability requirements to link these systems. | | | | |
| 0.00 | 55,000,000.00 | 140,000,000.00 | 35,000,000.00 | 140,000,000.00 | 65,000,000.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DLI allocation | | | 435,000,000.00 | | As a % of Total DLI Allocation | | | 62.21% | |
| 2:Local governments publish information on their budgets, debt and service delivery and reconstruction performance. (Number) | | | | | | | | | |
| 0 | | DLR 2.1. (i) The Cabinet of Ministers has approved the State Strategy of Regional Development of Ukraine. DLR 2.1. (ii) MoF has approved a revised Budget Methodology for the preparation of local government medium-term budget plans that includes gender information. DLR 2.2. (i) The Cabinet of Ministers has approved revised procedures that provide | | DLR 2.3. MoE has approved methodological recommendations for analyzing the environmental impact of public investment projects at the local level. | | | 0 | | |



| | | | | | | | | | |
|---|---|---|----------------|---------------|--------------------------------|------|------|--------|------|
| | | for expanded authority of local governments to borrow from financial institutions other than commercial banks. DLR 2.2. (ii) MoF has approved a Methodology for Local Government Debt and Guarantee Management and Reporting. | | | | | | | |
| 0.00 | 0.00 | 105,000,000.00 | 0.00 | 80,000,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DLI allocation | | | 185,000,000.00 | | As a % of Total DLI Allocation | | | 26.46% | |
| ➤ 2.1:Local governments publish gender information on their budgets, service delivery and reconstruction performance. (Number) | | | | | | | | | |
| 0 | | | | | | 0 | | | |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DLI allocation | | | 0.00 | | As a % of Total DLI Allocation | | | 0% | |
| 3:Allocations of intergovernmental transfers reflect updated service needs. (Percentage) | | | | | | | | | |
| 0 | DLR 3.1. The Cabinet of Ministers has approved criteria and procedures for the allocation of Additional Grants to support the delivery of | DLR 3.2. The Cabinet of Ministers has allocated Additional Grants to at least 100 hromadas applying the new criteria | | | | 0 | | | |



| | | | | | | | | | |
|--|--|-----------------|---|------|--------------------------------|------|------|-------|------|
| | basic services in hromadas that have been negatively affected. | and procedures. | | | | | | | |
| 0.00 | 35,000,000.00 | 15,000,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DLI allocation | | | 50,000,000.00 | | As a % of Total DLI Allocation | | | 7.15% | |
| 4:STS uses compliance risk management system for large taxpayer audits. (Percentage) | | | | | | | | | |
| 0 | | | DLR 4.1. (i) STS has developed regulations to support the implementation of a pilot project on compliance risk management. DLR 4.1. (ii) The Cabinet of Ministers has approved a Resolution authorizing the pilot project. DLR 4.1. (iii) STS identified high-risk taxpayers for audit. DLR 4.2. (i) STS has published the 2024 implementation progress report for the Anti-Corruption Program of the State Tax Service for | | | | | | |



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|----------------|------|------|--|--------------------------------|------|------|-------|------|------|
| | | | 2023-2025 on the STS website. DLR 4.2. (ii) STS has updated and published the 2025 Action Plan for the implementation of the Anti-Corruption Program of the State Tax Service. | | | | | | |
| 0.00 | 0.00 | 0.00 | 29,250,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DLI allocation | | | 29,250,000.00 | As a % of Total DLI Allocation | | | 4.18% | | |



Monitoring & Evaluation Plan: PDO Indicators by PDO Outcomes

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| PDO Indicator 1 | Public investment projects are aligned with strategic sustainable development priorities. |
| Description | Reflects strengthened implementation capability. Measured by the share of projects in the Single Project Pipeline, aligned with sectoral and national strategies, including climate change and gender considerations. |
| Frequency | Annual |
| Data source | Ministry of Finance, Cabinet of Ministers, National Investment Plan, Project Documentation, Strategic Development Plans |
| Methodology for Data Collection | Review and analysis of project documentation and strategic plans. Use a scoring system to evaluate alignment with sustainable development priorities. |
| Responsibility for Data Collection | Ministry of Finance |

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| PDO Indicator 2 | Local governments publish information on their budgets, debt and service delivery and reconstruction performance. |
| Description | Reflects strengthened implementation capability. Measured by the share of local governments that publish performance information on budget allocations, including for response and recovery. |
| Frequency | Semi-annual |
| Data source | Local government websites, budget reports, public announcements |
| Methodology for Data Collection | Monitor local government websites and public records. Collect and compile data from official reports and announcements. |
| Responsibility for Data Collection | Ministry of Finance Local Governments |

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| PDO Sub-Indicator 2.1 | Local governments publish gender information on their budgets and service delivery and reconstruction performance. |
| Description | Reflects strengthened implementation capability. Measured by the share of local governments that publish gender-informed performance information on budget allocations, including allocations for response and recovery. |
| Frequency | Semi-annual |
| Data source | Local government websites, budget reports, public announcements |
| Methodology for Data Collection | Monitor and review local government publications and budget reports for gender-disaggregated data. Compile and analyze the data to assess comprehensiveness and clarity. |
| Responsibility for Data Collection | Ministry of Finance Local Governments |

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| PDO Indicator 3 | Transfers to local governments are transparent and aligned with their service delivery and reconstruction needs. |
| Description | Reflects strengthened financing capability. Measured by the share of transfers aligned with reconstruction needs assessments and service needs. |
| Frequency | Annual |
| Data source | Intergovernmental fiscal transfer records, local governments' needs assessments, reconstruction plans |
| Methodology for Data Collection | Analyze transfer records and compare them with identified needs in reconstruction and service delivery plans. |



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| | Use a scoring framework to assess alignment. |
| Responsibility for Data Collection | Ministry of Finance in collaboration with local governments. |

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| PDO Indicator 4 | STS uses compliance risk management system for large taxpayer audits. |
| Description | Reflects strengthened financing capability. Measured by the share of large taxpayers audited based on the information generated as a result of the implementation of the compliance risk management system. |
| Frequency | Annual |
| Data source | Tax audit reports, compliance risk management system documentation, audit outcomes |
| Methodology for Data Collection | Review tax audit reports and compliance risk management system documentation. Assess the system’s effectiveness based on audit outcomes and risk mitigation measures. |
| Responsibility for Data Collection | STS Ministry of Finance |

Monitoring & Evaluation Plan: Intermediate Results Indicators by Results Areas

| Results Area 1: Public Investment Management | |
|---|--|
| IRI 1.1 | The Single Project Pipeline is approved by the Strategic Investment Council. |
| Description | Reflects strengthened implementation capacity. This is demonstrated by the SIC endorsement of the single project pipeline of central government priority projects for the budget. |
| Frequency | Annual |
| Data source | SIC reports, government documents |
| Methodology for Data Collection | Review of official SIC documentation and minutes of meetings |
| Responsibility for Data Collection | SIC, Ministry of Finance |
| IRI 1.2 | Public investment projects are prepared, appraised, and selected based on a uniform definition and new methodologies. |
| Description | Reflects strengthened implementation capacity. Measured by the number of projects prepared, appraised, and selected in line with the unified definition of public investment projects and the Resolution requiring the application of PIM methodologies. |
| Frequency | Annual |
| Data source | Project documentation, government reports |
| Methodology for Data Collection | Analysis of project approval records, review of compliance with resolutions |
| Responsibility for Data Collection | Ministry of Finance, Project Management Units |
| IRI Sub-indicator 1.2.1 | Public investment projects are prepared and appraised based on new methodologies that include gender considerations. |
| Description | Reflects strengthened implementation capability. Measured by the number of projects prepared and appraised in line with the Resolution requiring the application of PIM methodologies that include gender equality considerations. |
| Frequency | Annual |



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| Data source | Project documentation, government reports |
| Methodology for Data Collection | Analysis of project approval records, review of compliance with resolutions |
| Responsibility for Data Collection | Ministry of Finance, Project Management Units |
| IRI 1.3 | PIM IT ecosystem supports public investment project management across the project cycle. |
| Description | Reflects strengthened implementation capacity. Measured by the number of projects entered into the DREAM system as a unified data entry platform for public investment projects. |
| Frequency | Annual |
| Data source | DREAM system records, integration logs |
| Methodology for Data Collection | System audits, data entry logs |
| Responsibility for Data Collection | Ministry of Communities and Territories Development, Ministry of Finance |
| IRI 1.4 | Climate change is integrated into the PIM system. |
| Description | Reflects strengthened implementation capacity. Demonstrated by (i) the publication of PIM methodologies that integrate climate change considerations, including for project monitoring, reporting, and evaluation, and (ii) the inclusion of a climate change risk assessment module as part of the DREAM system. |
| Frequency | Annual |
| Data source | Official publications, DREAM system updates |
| Methodology for Data Collection | Review of official documents, system update logs |
| Responsibility for Data Collection | Ministry of Communities and Territories Development, Ministry of Finance |
| IRI 1.5 (CRI) | People using digitally enabled services (enhanced services) (Number of people) CRI |
| Description | Reflects strengthened implementation capacity. This indicator measures the number of people using digitally enabled services through the enhanced services provided by the DREAM system. It includes the new citizen engagement module, which aims to increase user interaction and feedback. |
| Frequency | Annual |
| Data source | DREAM system records or any other similar IT system for PIM |
| Methodology for Data Collection | Conduct system audits and review data entry logs to count the number of people accessing enhanced digital services. |
| Responsibility for Data Collection | Ministry of Communities and Territories Development or other agency in charge of DREAM or other similar IT system for PIM |
| IRI Sub-indicator 1.5.1 (CRI) | People using digitally enabled services (enhanced services) - Female (Number of people) CRI |
| Description | This sub-indicator measures the number of females using digitally enabled services through the enhanced services provided by the DREAM system, including the new citizen engagement module. |
| Frequency | Annual |
| Data source | DREAM system records or any other similar IT system for PIM |



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| Methodology for Data Collection | Conduct system audits and review data entry logs to count the number of women accessing enhanced digital services. |
| Responsibility for Data Collection | Ministry of Communities and Territories Development or other agency in charge of DREAM or other similar IT system for PIM |
| IRI Sub-indicator 1.5.2 (CRI) | People using digitally enabled services (enhanced services) - Youth (Number of people) (CRI) |
| Description | This indicator measures the number of youth using digitally enabled services through the enhanced services provided by the DREAM system, incorporating the new citizen engagement module aimed at engaging younger populations. |
| Frequency | Annual |
| Data source | DREAM system records or any other similar IT system for PIM |
| Methodology for Data Collection | Conduct system audits and review data entry logs to count the number of youth accessing enhanced digital services. |
| Responsibility for Data Collection | Ministry of Communities and Territories Development or other agency in charge of DREAM or other similar IT system for PIM |

Results Area 2: Local Public Financial Management

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| IRI 2.1 | Local governments implement medium-term budgeting, building on program and gender budgeting methods. |
| Description | Reflects strengthened implementation capability. Measured by the share of local governments that have received approval of their budget proposals by the Ministry of Finance, which include medium-term and strengthened performance information, including gender and climate-linked performance information. |
| Frequency | Annual |
| Data source | Local government budget submissions, Ministry of Finance approvals |
| Methodology for Data Collection | Review of budget documents, performance information compliance checks |
| Responsibility for Data Collection | Ministry of Finance |
| IRI 2.2 | Local government budgeting ICT system LOGICA supports performance, medium-term, gender and climate-informed budgeting. |
| Description | Reflects strengthened implementation capability. Measured by the share of local government that use the LOGICA local finance management system for local budget plans, including for performance, medium-term, and gender and climate-informed budgeting. |
| Frequency | Annual |
| Data source | LOGICA system usage logs, local government budget records |
| Methodology for Data Collection | System usage analysis |
| Responsibility for Data Collection | Ministry of Finance, Local governments |
| IRI 2.3 | Local government staff trained on PIM and integration of gender and climate change considerations. |
| Description | Reflects strengthened implementation capability. Measured by the number of staff trained. |
| Frequency | Semi-annual |



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| Data source | Training attendance records, certification records |
| Methodology for Data Collection | Review of training records, feedback surveys |
| Responsibility for Data Collection | Ministry of Finance, Training Institutions |
| IRI 2.4 | Transparency requirements for local budgets are approved. |
| Description | Tracks the approval and implementation of transparency requirements for local budgets. The aim is to ensure that local government budget processes are open, accountable, and accessible to the public, fostering greater trust and participation in local governance. Progress will be measured by the extent to which local budgets are publicly available. |
| Frequency | Annual |
| Data source | Government reports, official bulletins, local government websites, reports from civil society organizations monitoring budget transparency |
| Methodology for Data Collection | Document review, third-party assessments |
| Responsibility for Data Collection | Ministry of Finance, Local governments |

Results Area 3: Local Fiscal Governance

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| IRI 3.1 | Allocations of intergovernmental transfers reflect updated service needs. |
| Description | Reflects strengthened financing capability. Measured by the share of local governments that receive grants from the Ministry of Finance aligned with the Resolution by the Cabinet of Ministers on the new procedure for the allocation of grants to local budgets. The new formula considers revenue losses compared to the pre-2022 period and revenue dynamics from all key local revenues, including land tax, property tax, simplified tax, and other subsidies. Targeting is improved by using a dynamic list of affected communities approved by the Ministry of Communities and Territories Development. This improves the precision of grant distribution and allows for the timely addition or removal of local governments from the list of affected communities based on transparent criteria outlined in the Cabinet of Ministers Resolution #1364. |
| Frequency | Annual |
| Data source | Ministry of Finance reports, local government budget records |
| Methodology for Data Collection | Analysis of grant distribution records, compliance checks |
| Responsibility for Data Collection | Ministry of Finance |

Results Area 4: Revenue Administration

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| IRI 4.1 | Taxpayer surveys are conducted. |
| Description | Demonstrated by the public availability of STS survey findings, launched within the framework of the Global Survey on the Assessment of the STS activities. |
| Frequency | Annual |
| Data source | STS survey reports, public disclosure records |



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| Methodology for Data Collection | Review of survey publication, website checks |
| Responsibility for Data Collection | State Tax Service |
| IRI 4.2 | STS IT systems support standardized audit files. |
| Description | Reflects strengthened financing capability. Demonstrated by the development, testing, and implementation of an IT solution for processing the standard audit file data and improving SAF-T UA data analysis algorithms. |
| Frequency | Biannual |
| Data source | IT system development logs, implementation reports |
| Methodology for Data Collection | System development audits, implementation reviews |
| Responsibility for Data Collection | STS, IT Department |
| IRI 4.3 | STS approves and implements an Anticorruption Action Plan. |
| Description | Reflects strengthened financing capability. Demonstrated by the publication of the updated Anti-Corruption Program of the STS for 2023 – 2025, focusing on integrity measures. |
| Frequency | Annual |
| Data source | Official STS documents, public disclosure records |
| Methodology for Data Collection | Review of published documents |
| Responsibility for Data Collection | State Tax Service |



Verification Protocol Table: Disbursement Linked Indicators

| DLI 1 | Public investment projects are aligned with strategic sustainable development priorities. |
|----------------------------|--|
| Description | The DLI aims to enhance the effectiveness and efficiency of the public investment management system in Ukraine through: improved coordination and implementation of projects that include climate change adaptation and mitigation considerations, based on strategic priorities; improved access to standardized, comprehensive, and up-to-date information on investment pipelines, projects, and implementation, enabling informed decision-making. The DLI is measured by the share of projects in the Single Project Pipeline aligned with national and sectoral priorities and that address climate change and gender considerations. |
| Data source/ Agency | <ul style="list-style-type: none"> Government records: Official documents, reports, and data from relevant government agencies responsible for public investment management, climate change priorities, and infrastructure development. Project documentation: Detailed project plans, progress reports, and budget allocations from implementing agencies and ministries. Single Project Pipeline documentation. |
| Verification Entity | Government Review and Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> Data collection: Gather official government records, reports, and project documentation related to public investment management and climate-resilient projects. Compile data on coordination mechanisms, project priorities, and information accessibility. Verification: Analyze collected data to assess progress toward the DLI’s intermediate outcomes. Evaluate the effectiveness of coordination efforts in prioritizing and implementing climate-informed projects. Verify the availability and quality of information on the investment pipeline and project implementation. Reporting: Summarize findings in a verification report with supporting evidence. |
| DLR 1.1 | <p>DLR 1.1. (i) The Cabinet of Ministers has approved the PIM Action Plan that includes requirements for public investments to integrate climate change and energy efficiency considerations.</p> <p>DLR 1.1. (ii) MoE and MoF have established and appointed core staff members of PIM units.</p> |
| Formula | Not scalable. Achievement of criteria (i) qualifies for 75 percent and achievement of criteria (ii) qualifies for 25 percent of the allocated amount. If a unit is established at either the MoF or the MoE, it will qualify for half of the second criterion. |
| Description | <ul style="list-style-type: none"> The PIM Action Plan is a detailed list of tasks that assigns responsibility and sets timelines for implementation of the PIM Roadmap. The Action Plan should refer to the integration of climate change adaptation and energy efficiency considerations in the PIM process. Establishment of a dedicated PIM Unit refers to the approval of a Ministerial order or other instrument creating an organizational entity in the Ministry of Finance and the Ministry of Economy. The appointment of core staff for PIM Unit at the Ministry of Finance includes the head of unit and at least two technical specialists. The appointment of core staff for the PIM Unit at the Ministry of Economy includes the head of unit and at least three technical specialists). |
| Data source/ Agency | Cabinet of Ministers, Ministry of Finance, Ministry of Economy |
| Verification Entity | Independent Reviewer |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect official documents including the approved PIM Action Plan, records of the establishment and operationalization of PIM units. x Verification: The Independent Reviewer will review the collected documents and conduct site visits and interviews with key stakeholders to confirm the establishment and operational status of the PIM units. |



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| | <ul style="list-style-type: none"> Reporting: The Independent Reviewer will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 1.2 | <p>DLR 1.2. (i) The Cabinet of Ministers has established the Strategic Investment Council (SIC) as the sole authority for the approval of a single project pipeline of public investment project concepts.</p> <p>DLR 1.2. (ii) SIC approved a single project pipeline of public investment project concepts for 2025 budget based on prioritization criteria that include the alignment with strategic priorities and climate considerations, and MoF only included projects in the 2025 Budget submission approved by SIC.</p> |
| Formula | <p>Not scalable.</p> <p>Achievement of (i) qualifies for 14.3 percent, and (ii) for 85.7 percent of the allocated amount.</p> |
| Description | <ul style="list-style-type: none"> Establishment of the Strategic Investment Council (SIC) refers to the approval of a Cabinet of Ministers Resolution creating the Council and the realization of meetings of the SIC. According to the Public Investment Management Roadmap, the Strategic Investment Council will be chaired by the Prime Minister, made up of members of the Cabinet of Ministers. The composition of the Strategic Investment Council may be adjusted but the Council should remain a decision-making body chaired by a Minister with authority over resource allocation across Government with representation of at least the Ministers of Finance, Economy, and Infrastructure. The Strategic Investment Council will determine the allocation of public resources to finance public investment, coordinate strategic priorities for public investments, and approve a Single project pipeline. The Ministry of Economy will provide information and analytical support for the Council’s activities. Approval of a Single Project Pipeline refers to the endorsement of projects for integration the 2025budget by SIC. The Single Project Pipeline is a consolidated prioritized list of projects to be financed from all sources of finance. Central, regional, and local government entities submit project concepts for inclusion in the Single Project Pipeline. The Ministries of Finance, Ministry of Economy, and Ministry of Communities and Territories Development appraise project concepts to assess their strategic relevance, the financial sustainability of the proposed project, investment readiness, climate risks and impacts, environmental sustainability, inclusiveness, and accessibility considerations. Ministry of Finance performs its gatekeeping function that ensures that only project concepts that are part of the single project pipeline are included in the 2025 Budget Submission, excluding emergency and security projects. |
| Data source/ Agency | Strategic Investment Council, Ministry of Finance, Ministry of Economy, Ministry of Communities and Territories Development |
| Verification Entity | Independent Reviewer |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect documents related to: the establishment of the SIC; MoF, MoE and MCTD appraisal of project concepts; the list of project concepts approved by SIC; and the list of projects that MoF includes in the 2025 budget. Verification: The Independent Reviewer will review the documents and conduct interviews with relevant officials. Reporting: The Independent Reviewer will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 1.3 | <p>DLR 1.3. (i) The Cabinet of Ministers approved amendments to the Budget Code establishing the Medium-Term Priority Public Investment Plan and a unified definition of public investment and public investment projects.</p> <p>DLR 1.3. (ii) MoF published information on projects selected for inclusion in the 2025 Budget Submission prior to parliamentary approval.</p> |
| Formula | <p>Not scalable.</p> <p>Achievement of each of the criteria (i) and (ii) qualifies for 50 percent of the allocated amount.</p> |
| Description | <ul style="list-style-type: none"> Publication of information refers to the publication of information on all central level projects selected for inclusion in the 2025 Budget submission prior to parliamentary approval. |



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| | <ul style="list-style-type: none"> Project information refers to the basic identification of the project, the project objective, location, lifetime and annual budget, and expected completion date. MoF may publish information in summary form or publish project concepts with commercially and other sensitive information redacted. Public disclosure refers to the posting of project information on the MoF website in a machine-readable format. Publication may alternatively entail the posting of project information on the DREAM website. The amendments to the Budget Code establishing the Medium-Term Priority Public Investment Plan will: establish general approach to the screening and prioritization of the projects that aligns with government’s strategic priorities and climate considerations as outlined in the PIM Action Plan (see DLR 1.1), content of the Plan, the roles of stakeholders in the process of preparation of Medium-Term Priority Public Investment Plan. |
| Data source/ Agency | Ministry of Finance |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect records of: the amendments to the Budget Code establishing the Medium-Term Priority Public Investment Plan that provides a unified definition of public investment and public investment projects; and project information published on the MoF’s website and the DREAM website. Verification: The IVA will review the collected records, verify that information is available for all central level projects included in the 2025 Budget Submission, the publication date precedes Parliamentary approval of the State Budget, and the accessibility of the information. Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 1.4 | <p>DLR 1.4. (i) The Cabinet of Ministers has approved PIM Methodologies for project identification, prioritization, preparation, appraisal, and approval that include gender equality and climate change considerations.</p> <p>DLR 1.4. (ii) SIC approved a single project pipeline for 2026-2028 based on a prioritized list of projects concepts at the central level and relevant projects at the local level which includes gender and climate change considerations.</p> |
| Formula | <p>Not scalable.</p> <p>Achievement of (i) qualifies for 70 percent, and (ii) for 30 percent of the allocated amount.</p> |
| Description | <ul style="list-style-type: none"> Approval of PIM Methodologies refers to the approval of a Cabinet of Ministers Resolution concerning preparation of public investment projects (from project concept to public investment project) that require financing from the budget (at the expense of all sources, including funds from IFIs and foreign governments) and state support (state guarantees, PPPs) with clear distribution of functions amongst the participants of the process, procedure and criteria for the selection of public investment projects for financing from the budget and with state support, including project maturity and compliance with sectoral and/or regional strategic priorities Project concepts address gender considerations when they provide an assessment of gender differentiated needs and integrate specific measures to address these needs. Gender assessment is challenging, and the quality of assessment is expected to improve over time. Project concepts address climate change considerations including the assessment of physical and transition risks and climate impacts and include specific measures to strengthen resilience and reduce GHG emissions. Assessment of climate risks and impacts is challenging, and the quality of assessment is expected to improve over time. |
| Data source/ Agency | Ministry of Economy, Strategic Investment Council |
| Verification Entity | Independent Verification Agent |



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| <p>Procedure</p> | <ul style="list-style-type: none"> • Data collection: The PIU will collect approved PIM methodologies and documentation on project concepts approved by SIC pipeline documents. • Verification: The IVA will review the documents and conduct interviews with relevant officials to confirm the inclusion of gender and climate considerations. • Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| <p>DLR 1.5</p> | <p>DLR 1.5. (i) The Cabinet of Ministers has approved revised regulations and specifications for the DREAM system that contain the new public investment management procedures and build back better approach, including climate change adaptation and mitigation assessment, and civil society feedback modules.</p> <p>DLR 1.5. (ii) The Cabinet of Ministers has approved specifications for information exchange between the DREAM system, Prozorro, Treasury, and Budgeting systems and the interoperability requirements to link these systems.</p> |
| <p>Formula</p> | <p>Not scalable. Achievement of each of the criteria (i) and (ii) qualifies for 50 percent of the allocated amount.</p> |
| <p>Description</p> | <ul style="list-style-type: none"> • Approval refers to the publication of a Cabinet of Ministers Resolution. Regulation will regulate the use of the DREAM system and define roles, responsibilities, workflows, and data requirements. • Specifications are technical designs that describe how to translate the PIM Methodology into a digital solution for use by all stakeholders. This includes definitions of the workflows, data requirements and technical designs that support: the project cycle encompassing the preparation of concept notes, project prioritization, project appraisal, and project approval, project monitoring and reporting, third party monitoring, and project evaluation; and specific climate change adaptation and mitigation functions, and mechanisms for civil society feedback. The functional requirements may be achieved by improvements to the DREAM system or developing new IT solutions with the required functionality. • Information exchange entails the definition of the data governance and information technology solutions required ensure to that the DREAM, Prozorro, Treasury, and Budgeting systems effectively communicate and operate together efficiently and securely. This will include data governance standards, data formats, data security, API integration, workflow integration, communication protocols, middleware, and the infrastructure needed to support these functionalities. |
| <p>Data source/ Agency</p> | <p>Ministry of Finance, Cabinet of Ministers, Ministry of Communities and Territories Development</p> |
| <p>Verification Entity</p> | <p>Independent Verification Agent</p> |
| <p>Procedure</p> | <ul style="list-style-type: none"> • Data collection: The PIU will collect the approved regulations and specifications documents. • Verification: The IVA will review the documents and verify that they provide an adequate basis for the DREAM system to support the PIM Methodology and functional integration of the DREAM, Prozorro, Treasury, and Budgeting information systems. • Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| <p>DLR 1.6</p> | <p>DLR 1.6. (i) The Cabinet of Ministers has approved a Resolution requiring the application of the PIM Methodology for project monitoring, reporting, and evaluation that include gender equality and climate change considerations.</p> <p>DLR 1.6. (ii) MoE and MoF have trained at least 50 central government PIM specialists in new PIM procedures, including on integrating climate change considerations.</p> |
| <p>Formula</p> | <p>Not scalable. Achievement of (i) qualifies for 70 percent and (ii) for 30 percent of the allocated amount.</p> |
| <p>Description</p> | <ul style="list-style-type: none"> • Approval and publication of a Cabinet of Ministers Resolution establishing the procedure for the implementation of public investment projects, their monitoring, both in terms of financial and physical performance indicators, and evaluation of their effectiveness with clear distribution of functions |



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| | <p>amongst the participants of the process, procedure for the final evaluation of the implementation of the public investment project and the procedure for taking actions regarding the registration of property rights to the created asset and the procedure for recording the created assets. Procedures include gender equality and climate change considerations.</p> <ul style="list-style-type: none"> • Training at least 50 central government PIM specialists in new PIM procedures. The training materials should cover the PIM Methodology for project identification, prioritization, preparation, appraisal, and approval and the PIM Methodology for project monitoring, revision, reporting, and evaluation. |
| Data source/ Agency | Ministry of Economy, Ministry of Finance |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect the approved Resolution, the PIM Methodology, training records, and online training materials. • Verification: The IVA will review the collected documents, verify the scope of the PIM Methodology, verify that the training materials are consistent with the PIM Methodology, and confirm the completion of training for at least 50 PIM specialists. • Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 1.7 | <p>DLR 1.7. (i) The Cabinet of Ministers has introduced a requirement for all projects included in the State Budget to be registered in the DREAM system.</p> <p>DLR 1.7. (ii) MoE, MoF, and MCTD have established daily reconciliation of data from the DREAM system with information from Prozorro, the Treasury, and the Budgeting systems.</p> <p>DLR 1.7. (iii) MCTD has operationalized climate change modules in the DREAM system that allow central and local governments to identify and address project-level climate-related physical risks (adaptation) and impacts (GHG emission mitigation).</p> |
| Formula | <p>Not scalable.</p> <p>Achievement of (i) qualifies for 40 percent, (ii) for 20 percent, and (iii) for 40 percent of the allocated amount.</p> |
| Description | <ul style="list-style-type: none"> • Data reconciliation signifies that the DREAM, Prozorro, Treasury, and Budgeting systems effectively communicate and operate together efficiently and securely across the project cycle. • A single data entry platform signifies that only projects registered in DREAM can be submitted for appraisal, approved by the SIC and included in the Budget Submission. DREAM or any other IT solution for PIM should cover the whole project cycle cover following the PIM Methodology for project identification, prioritization, preparation, appraisal, approval, project monitoring, revision, reporting, and evaluation. • Climate change modules should: generate location and project specific information on the physical risks that are likely to effect on the project during its lifetime and assess the implications of climate physical risks for project feasibility; assess lifetime GHG emissions arising from the project design and identify alternative solutions that are likely to reduce climate impacts (energy efficiency, use of renewable energy, alternative designs and technologies, behavioral approaches) and their implications for project feasibility impact. The modules will cover a limited number of common project typologies, with the potential to gradually expand the scope of the module. |
| Data source/ Agency | Ministry of Finance, Cabinet of Ministers, Ministry of Communities and Territories Development |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect DREAM system operational records and module functionality reports. |



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| | <ul style="list-style-type: none"> • Verification: The IVA will review the records and verify the operational status of system integration and the functionality and application of the climate change modules. • Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 1.8 | <p>DLR 1.8. (i) At least 80 percent of public investment projects approved for implementation are aligned with strategic priorities.</p> <p>DLR 1.8. (ii) At least 30 investment public investment projects include climate physical risk and impact mitigation measures in their project feasibility studies.</p> |
| Formula | (i) At least 80 percent of projects approved for implementation have demonstrated the alignment with strategic priorities, and (ii) at least 30 investment projects include climate physical risk and impact mitigation measures in the project feasibility studies. Achievement of (i) qualifies for 60 percent, each 1 percent of projects aligned with strategic priorities quality for 6 percent, and (ii) for 40 percent of the allocated amount, each 3 projects qualify for 4 percent. |
| Description | <ul style="list-style-type: none"> • Alignment with strategic priorities refers to projects being consistent with national development goals, sectoral strategies, and policy objectives, ensuring they contribute to long-term sustainable development and address key socio-economic challenges. • Initiation of investment projects refers to the approval of the project in the State Budget, the preparation of a Procurement Plan, the allocation of funds from the State budget to finance or co-finance the project, and the first release of funds from the State Budget to finance project implementation. • Projects that include climate physical risk and climate impact mitigation measures in the project concept will have specific actions that: seek to increase resilience to specified physical risks including adjustments in project design, use of technology, or behavioral approaches; and/or seek to reduce GHG emissions including by improvements in energy efficiency, use of renewable energy, alternative designs and technologies, and behavioral approaches. |
| Data source/ Agency | Ministry of Finance, Strategic Investment Council |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect documents on project approval, project concepts, project financing, project procurement plans, and release of funds. • Verification: The IVA will review the documents and verify the initiation of projects and the integration of climate physical risk and impact mitigation measures. • Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |

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| DLI 2 | Local governments publish information on their budgets, debt and service delivery and reconstruction performance. |
| Description | The DLI aims to improve the effectiveness and efficiency of local government fiscal governance for recovery through: improved capacity of local governments to manage debt and guarantees, medium-term budgets, align budgets with gender-specific needs and climate change priorities; and increased public access to budget information at the local level. The DLI is measured by the share of local governments that publish information on budget allocations, debt, and service delivery. The DLI includes a sub-indicator on gender- and climate-informed ²⁵ information. |

²⁵ DLI2: The specific indicators which are used will depend on the revised budget methodology for the preparation of local government medium-term budget plans that is developed (see DLR2.1). However, climate change information which may be captured includes climate adaptation expenditure, such as (i) financing for infrastructure projects which incorporate climate-resilient designs and materials, and (ii) the proportion of the infrastructure



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| Data source/ Agency | <ul style="list-style-type: none"> Government records: Official documents, reports, and data from relevant government agencies responsible for local budgeting. Project documentation: Detailed project plans, progress reports, and budget allocations from implementing agencies and ministries. |
| Verification Entity | Independent Reviewer and Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will gather official government records, reports, and project documentation related to local borrowing, debt, and guarantee management; local financial management systems; local budget planning and reporting; and local medium-term budgeting methodologies, which include gender and climate information. The PIU will transmit the necessary documentation to the IVA. Verification: The Independent Reviewer or IVA will review data to assess progress toward the DLI's intermediate outcomes. Evaluate the effectiveness of changes to local budgeting. Reporting: The Independent Reviewer or IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 2.1 | <p>DLR 2.1. (i) The Cabinet of Ministers has approved the State Strategy of Regional Development of Ukraine.</p> <p>DLR 2.1. (ii) MoF has approved a revised Budget Methodology for the preparation of local government medium-term budget plans that includes gender information.</p> |
| Formula | Not scalable. Achievement of (i) qualifies for 17.6% and (ii) qualifies for 82.4% of the allocated amount. |
| Description | <ul style="list-style-type: none"> The State Strategy for Regional Development is a document which guides coordination between local and regional development needs and state-level development priorities. The State Strategy is proposed by the Ministry of Communities and Territories Development and approved by a Cabinet of Ministers Resolution. Revised Budget Methodology refers to templates and technical guidance for local governments to use when submitting their medium-term budget proposals. The Budget Methodology is approved by the Ministry of Finance. Application of the Budget Methodology is mandatory for local governments. According to the Methodology, medium-term budget plans will reflect the incorporation of gender aspects in the policy objectives and relevant expenditures in order to reduce gender gaps, weaken negative and strengthen positive trends in the relevant sphere/sector with a view to ensuring gender needs and satisfying gender interests. |
| Data source/ Agency | Ministry of Communities and Territories Development, Ministry of Finance |
| Verification Entity | Independent Reviewer |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect the State Strategy for Regional Development of Ukraine; the Budget Methodology including the templates, the standard list of indicators and instructions for the preparation of the medium-term budget and budget plans at local level. Verification: The Independent Reviewer will verify the approval and publication of the State Strategy of Regional Development. The Independent Reviewer will verify that the instructions for local governments and the standard list of budget indicators meet the specified criteria and include gender information. Reporting: The Independent Reviewer will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 2.2 | DLR 2.2. (i) The Cabinet of Ministers has approved revised procedures that provide for expanded authority of local governments to borrow from financial institutions other than commercial banks. |

budget dedicated to projects designed to adapt to climate change impacts. Information which may be captured also includes funding allocations for climate change mitigation initiatives, such as (iii) infrastructure improvements which result in decreased emissions (energy-efficient public buildings, smart-grid technologies) and (iv) green infrastructure.



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| | DLR 2.2. (ii) MoF has approved a Methodology for Local Government Debt and Guarantee Management and Reporting. |
| Formula | Not scalable. Achievement of each of the criteria (i) and (ii) qualifies for 50 percent of the allocated amount. |
| Description | <ul style="list-style-type: none"> Approval refers to the publication of a Cabinet of Ministers Resolution on borrowing by local governments expanding the authority for local governments to borrow from financial institutions (other than commercial banks), establishing criteria for expanded borrowing authority, mandating compliance with MoF regulations and transparency in local government financial activities. The Methodology for Local Government Debt and Guarantee Management and Reporting will support the expansion of local government's powers to borrow by providing guidelines for responsible borrowing practices. The Methodology will cover reporting requirements, risk assessment procedures, and mechanisms for managing debt and guarantees effectively. The Ministry of Finance instructions will require local government to apply the Methodology for debt and guarantee management from a specified date, ensuring uniformity and adherence to best practices. |
| Data source/ Agency | Cabinet of Ministers, Ministry of Finance |
| Verification Entity | Independent Reviewer |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect: the Resolution from the Cabinet of Ministers; and approved methodologies. Verification: The Independent Reviewer will verify that the Resolution and methodologies meet the specified criteria. Reporting: The Independent Reviewer will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 2.3 | DLR 2.3. MoE has approved methodological recommendations for analyzing the environmental impact of public investment projects at the local level. |
| Formula | Not scalable. Achieved if the methodology for analyzing the environmental impact of public investment is approved. |
| Description | <ul style="list-style-type: none"> The methodological recommendations refer to the guidelines that will guide local governments on assessing the environmental consequences of public investment projects. These recommendations will include instructions on how to assess the potential climate change adaptation (e.g., flooding, temperature rise) and mitigation (e.g., GHG emission, renewable or improved energy efficiency) impacts of public investment projects. |
| Data source/ Agency | Ministry of Finance, Ministry of Economy |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect the methodological recommendations. Verification: The Independent Verification Agent will verify that the recommendations have been prepared and approved and include instructions on analyzing environmental and climate change impacts of public investments at the local level. Reporting: The Independent Verification Agent will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 2.4 | DLR 2.4. (i) Of the approved medium-term budget plans, at least 400 hromadas have included gender information and made the medium-term budget plans publicly available. |
| | DLR 2.4. (ii) At least 30 percent of hromadas' investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis. |
| Formula | Achievement of (i) and (ii) each qualifies for 50 percent of the allocated amount. DLR 2.4. (i) 5 percent of funds will be disbursed each time 20 hromadas have included gender and climate change information in |



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| | approved budgets and made the budget publicly available. DLR 2.4. (ii) 10 percent of funds will be disbursed each time 10 percent of hromadas' investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis. |
| Description | <ul style="list-style-type: none"> • Hromadas are defined by the Law on Local Self-Government in Ukraine. • Gender relevant information refers to data that align with the Revised Budget Methodology (see DLR 2.1). • Publication refers to the posting of the hromadas budget on an official website, options include the website of the local authority or the Ministry of Finance. • Environmental impact analysis refers to the guidelines that will guide local governments on assessing the environmental consequences of public investment projects (see DLR 2.3). |
| Data source/ Agency | Local Governments |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect records of approved and published budgets from Amalgamated Local Governments and from the Ministry of Finance. The PIU will also collect investment project proposals from local governments and the relevant documentation showing the inclusion of environmental impact assessments. • Verification: The IVA will verify that at least 400 Amalgamated Local Governments have integrated gender and made the budgets publicly available. The IVA will also verify that at least 30 percent of local government investment project proposals include information on environmental impacts, including climate change adaptation and mitigation measures. • Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 2.5 | DLR 2.5. At least 90 percent of hromadas with debt obligations have reported monthly on their debt and guarantees. |
| Formula | 10 percent of funds will be disbursed each time 9 percent of hromadas with debt obligations successfully report on their debt and guarantees. |
| Description | <ul style="list-style-type: none"> • Hromadas are defined by the Law on Local Self-Government in Ukraine. • Reporting refers to the submission of reports to MoF that are compliant with the Methodology for Local Government Debt and Guarantee Management and Reporting. The reporting period covers each month in the year from January to December 2025. Reports should be received within 30 days of the end of the monthly reporting period. |
| Data source/ Agency | Ministry of Finance, Local Governments |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect monthly debt and guarantee reports from the Ministry of Finance. • Verification: The IVA will verify that at least 90 percent hromadas have reported monthly on their debt and guarantees. • Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 2.6 | DLR 2.6. MoF has upgraded local finance management information system (LOGICA) to digitally capture and report on medium-term budget plans and budget execution that include gender information. |
| Formula | Not scalable. Achieved if the LOGICA system is upgraded to allow capturing and reporting on medium-term budget plans and budget execution including gender relevant information. |



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| Description | <ul style="list-style-type: none"> LOGICA refers to the local finance management information system used by the Ministry of Finance. Gender relevant information refers to data that align with the Revised Budget Methodology (see DLR 2.1). The upgrade involves digital capture and reporting capabilities to ensure that gender considerations can be systematically integrated into budget planning and execution. The upgrade does not yet ensure full utilization of the system by all intended users. |
| Data source/ Agency | Local Governments |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect records and documentation from the Ministry of Finance confirming the upgrade of the LOGICA system, including screenshots, system reports, and user manuals demonstrating the new capabilities. Verification: The IVA will verify the upgrade by reviewing the provided documentation and conducting tests to ensure that the LOGICA system can capture and report on medium-term budget plans and budget execution with integrated gender and climate relevant information. Reporting: The IVA will prepare a verification report presenting the findings with supporting evidence and submit it to MoF for review. |
| DLR 2.7 | <p>DLR 2.7. (i) 400 hromadas have included gender information in publicly available budget execution reports.</p> <p>DLR 2.7. (ii) At least 60 percent of hromadas’ investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis.</p> |
| Formula | <p>Achievement of (i) and (ii) each qualifies for 50 percent of the allocated amount.</p> <p>DLR 2.7. (i) 5 percent of funds will be disbursed each time 20 hromadas have included gender information in their end of year budget execution reports that are publicly available.</p> <p>DLR 2.7. (ii) 10 percent of funds will be disbursed each time 10 percent of hromadas’ investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis.</p> |
| Description | <ul style="list-style-type: none"> Hromadas are defined by the Law on Local Self-Government in Ukraine. Reporting refers to the Budget Execution Report submitted to the Ministry of Finance covering the period January to December 2025. Gender relevant information refers to data that align with the Revised Budget Methodology (see DLR 2.1). Environmental impact analysis refers to the guidelines that will guide local governments on assessing the environmental consequences of public investment projects (see DLR 2.3). Publication refers to the posting of the Amalgamated Local Government budget on an official website, options include the website of the local authority or the Ministry of Finance. |
| Data source/ Agency | Ministry of Finance, Local Governments |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> Data collection The PIU will collect records of published Budget Execution Reports from hromadas and from the Ministry of Finance. Verification: The IVA will review the reports to confirm that at least 400 hromadas Budget Execution Reports have been published. Reporting: The IVA will prepare a verification report and submit it to the relevant authorities. |



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| DLI 3 | Allocations of intergovernmental transfers reflect updated service delivery needs. |
| Description | The DLI aims to improve the effectiveness and efficiency of local government fiscal governance for recovery through the design and allocation of intergovernmental fiscal transfers to Local governments that are aligned with service and reconstruction needs. The DLI is measured as a share of transfers aligned with reconstructions needs assessments and service delivery needs. |
| Data source/ Agency | <ul style="list-style-type: none"> Government records: Official documents, reports, and data from relevant government agencies responsible for intergovernmental fiscal transfers. Project documentation: Detailed project plans, progress reports, and budget allocations from implementing agencies and ministries. |
| Verification Entity | Independent Reviewer and Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will gather official government records, reports, and project documentation related to inter-governmental fiscal transfers to Local governments. Verification: The IVA will analyze collected data to assess progress toward the DLI's intermediate outcomes and the implementation of changes to fiscal transfers. Reporting: The IVA will summarize its findings in a verification report with supporting evidence. |
| DLR 3.1 | DLR 3.1. The Cabinet of Ministers has approved criteria and procedures for the allocation of Additional Grants to support the delivery of basic services in hromadas that have been negatively affected. |
| Formula | Not scalable. Achieved if criteria and procedures for allocating Additional Grants to affected hromadas are approved. |
| Description | <ul style="list-style-type: none"> Approval refers to the publication of a Cabinet of Ministers Resolution. Additional Grant refers to transfers to hromadas under Budget Program 3511280. Criteria for the allocation of Additional Grants refers to the data and formula used to determine the allocation of the Additional Grant between eligible hromadas. Eligible hromadas are those severely impacted. The criteria should compensate severely affected hromadas for the loss of revenue and support the delivery of basic services. The criteria may be adjusted during Program implementation. Procedures include the process for adjustment in eligibility criteria, grant allocation formula, application process, performance metrics, and transfer arrangements. |
| Data source/ Agency | Ministry of Finance and Cabinet of Ministers |
| Verification Entity | Independent Reviewer |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect documentation on the new procedure from the Ministry of Finance and the endorsed Resolution from the Cabinet of Ministers. Verification: The Independent Reviewer will verify that Resolution meets the defined criteria. Reporting: The Independent Reviewer will summarize its findings in a verification report with supporting evidence. |
| DLR 3.2 | DLR 3.2. The Cabinet of Ministers has allocated Additional Grants to at least 100 hromadas applying the new criteria and procedures. |
| Formula | 25 percent of funds will be disbursed every time at least 25 hromadas are allocated Additional Grants. [For each 25 hromadas that have been allocated Additional Grants applying the new criteria and procedures, USD 3.75 million will be available for payment up to USD 15.00 million.] |
| Description | <ul style="list-style-type: none"> Additional Grant refers to transfers to hromadas under Budget Program 3511280. |
| Data source/ Agency | Ministry of Finance |
| Verification Entity | Independent Reviewer |
| Procedure | <ul style="list-style-type: none"> Data collection: The PIU will collect records of transfers of Additional Grants to Hromadas by the Ministry of Finance and documentation from hromadas confirming receipt of the Additional Grants. |



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| | <ul style="list-style-type: none"> • Verification: The Independent Reviewer will verify that at least 100 hromadas have received Additional Grants. • Reporting: The Independent Reviewer will prepare a verification report and submit it to the relevant authorities. |
| DLR 3.3 | <p>DLR 3.3. (i) The Cabinet of Ministers has updated the list of eligible hromadas.</p> <p>DLR 3.3. (ii) The Cabinet of Ministers has allocated Additional Grants to at least 100 hromadas.</p> |
| Formula | <p>Achievement of each of the criteria (i) and (ii) qualifies for 50 percent of the allocated amount.</p> <p>DLR 3.3. (ii) 10 percent of DLR amount will be disbursed when 10 hromadas receive allocation of Additional Grants.</p> |
| Description | <ul style="list-style-type: none"> • Approval refers to the publication of a Cabinet of Ministers Resolution. • Criteria refers to the data and formula used to determine the allocation of Additional Grants between eligible hromadas. • The list of eligible hromadas refers to those hromadas that may receive Additional Grants as determined by the Cabinet of Ministers. The list of eligible hromadas will be adjusted to take into account the changing distribution of areas negatively affected. The list of eligible hromadas may also be adjusted to reflect the transition to a recovery phase. • Additional Grant refers to transfers to hromadas under Budget Program 3511280. |
| Data source/ Agency | Ministry of Finance, Ministry of Communities and Territories Development |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect documentation on the Cabinet of Ministers Resolution approving the criteria, the updated list of eligible hromadas, and records of transfers of Additional Grants to hromadas by the Ministry of Finance and documentation from hromadas confirming receipt of the Additional Grants. • Verification: The IVA will verify that Resolution meets the defined criteria and that at least 100 homadas have received Additional Grants. • Reporting: The IVA will prepare a verification report and submit it to the relevant authorities. |

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| DLI 4 | STS uses compliance risk management system for large taxpayer audits. |
| Description | The DLI aims to strengthen integrity within the State Tax Service (STS) and improve the quality of services provided to taxpayers. The DLI supports reforms and measures to increase transparency, reduce corruption risks, and enhance overall taxpayer satisfaction. The DLI is measured by the share of large taxpayers audited based on data generated by the compliance risk management system. |
| Data source/ Agency | <p>State Tax Service:</p> <ul style="list-style-type: none"> • Internal reports, memos, and documentation from the STS outlining their reform initiatives, progress updates, and any challenges faced. • Publicly accessible reports, press releases, and announcements from the STS and other government agencies regarding tax administration reforms and integrity measures. • Surveys conducted by the STS or independent organizations to gather feedback from taxpayers regarding their experiences with tax services, perceptions of integrity, and suggestions for improvement. |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect documentation outlining the specific reforms and measures aimed at enhancing integrity and taxpayer service quality within the State Tax Service and gather data on the implementation timeline, milestones, and allocated resources for these reforms. The PIU will transmit the necessary documentation to the IVA. |



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| | <ul style="list-style-type: none"> • Verification: The IVA will: conduct interviews with STS officials and stakeholders to assess the perceived integrity of the tax administration and the quality of services provided; and review internal STS reports and external assessments to evaluate progress towards achieving the objectives of DLI 3. • Reporting: The IVA will summarize its findings in a verification report with supporting evidence. |
| DLR 4.1 | <p>DLR 4.1. (i) STS has developed regulations to support the implementation of a pilot project on compliance risk management.</p> <p>DLR 4.1. (ii) The Cabinet of Ministers has approved a resolution authorizing the pilot project.</p> <p>DLR 4.1. (iii) STS identified high-risk taxpayers for audit.</p> |
| Formula | <p>Not scalable.</p> <p>Achievement of (i) qualifies for 34.3%, (ii) qualifies for 30.9%, and (iii) for 34.8% of the allocated amount.</p> |
| Description | <ul style="list-style-type: none"> • The pilot project for tax compliance risk management seeks to identify and mitigate tax compliance risks through targeted strategies and interventions. The State Tax Service will develop guidance and regulations to support the pilot project, covering methodologies for risk assessment, criteria for identifying high-risk taxpayers, and procedures for conducting risk-based audits. • The Cabinet of Ministers will approve and publish a Resolution authorizing the pilot project, outlining its objectives, scope, and implementation mechanisms, and allocating necessary resources for its execution. • The pilot project is considered launched when it is first used to identify a high-risk audit. • (i), (ii) and (iii) need to be achieved to qualify for disbursement. |
| Data source/ Agency | State Tax Service |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect the pilot project approval documents, guidance, regulations, and documentation that demonstrates that the pilot project has been used to identify high risk taxpayer. • Verification: The IVA will verify the development, implementation and the launch of the pilot project. • Reporting: The IVA will prepare a verification report and submit it to the relevant authorities. |
| DLR 4.2 | <p>DLR 4.2. (i) STS has published the 2024 implementation progress report for the Anti-Corruption Program of the State Tax Service for 2023-2025 on the STS website.</p> <p>DLR 4.2. (ii) STS has updated and published the 2025 Action Plan for the implementation of the Anti-Corruption Program of the State Tax Service.</p> |
| Formula | <p>Not scalable.</p> <p>Achievement of (i) and (ii) each qualifies for disbursement of 50% of the allocated amount.</p> |
| Description | <ul style="list-style-type: none"> • The Anti-Corruption Plan of the State Tax Service for 2023-2025 is a strategic initiative aimed at combating corruption within the tax administration. The Anti-Corruption Plan outlines specific measures, policies, and actions to be implemented over the three-year period to enhance transparency, integrity, and accountability within the State Tax Service. • The Implementation Report for 2024 should cover the progress made in implementing the Anti-Corruption Program during the calendar year. It should include an assessment of achievements, challenges encountered, lessons learned, and recommendations for improvement. • The Action Plan for 2025 should outline the specific activities and initiatives planned for the upcoming year to further advance the objectives of the Anti-Corruption Program. It should include details such as timelines, responsible parties, allocated resources, and performance indicators. • The Action Plan will be published on the State Tax Service's official website. |
| Data source/ Agency | State Tax Service |
| Verification Entity | Independent Verification Agent |



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| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect the 2024 Implementation Report and the 2025 Action Plan for the Anti-Corruption Program of the State Tax Service for 2023-2025 from the State Tax Service and transmit the necessary documentation to the IVA. • Verification: The IVA will review the documentation provided by the State Tax Service to confirm that the 2024 Implementation Report and the 2025 Action Plan meet the defined criteria. Confirm that the 2024 Implementation Report and 2025 Action Plan are publicly available. • Reporting: The IVA will summarize its findings in a verification report with supporting evidence. |
| DLR 4.3 | DLR 4.3. STS has completed installation of an IT system that meets the specifications for processing of accounting data between large taxpayers and STS using the standard audit file (SAF-T UA). |
| Formula | Not scalable. Achieved if the IT system that meets the specifications for processing of accounting data between taxpayers and STS using the standard audit file (SAF-T UA) is installed. |
| Description | <ul style="list-style-type: none"> • The Standard Audit File (SAF) is a standardized format for electronic exchange of accounting data between taxpayers and tax authorities. SAF-T UA specifically refers to the Ukrainian version of the SAF format. The minimum functionality of the IT solution should include the ability to process, store, and analyze SAF-T UA data efficiently. It should also provide features for data validation, error detection, and reporting. • The installation of the IT solution is considered completed when the State Tax Service officially announces the completion of the system development and deployment, and the IT solution becomes operational for processing SAF-T UA data on a routine basis. • The minimum functionality of the IT solution should include the ability to process, store, and analyze SAF-T UA data efficiently. It should also provide features for data validation, error detection, and reporting. |
| Data source/ Agency | State Tax Service |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect system documents including SAF-T UA IT solution specifications, tests for data analysis, and operating manuals from the State Tax Service and transmit the necessary documentation to the IVA. • Verification: The IVA will review system documentation, consult SAF-T UA IT solution and data analysis users, review user feedback, and test the IT system to verify that the system meets functionality criteria. • Reporting: The IVA will summarize its findings in a verification report with supporting evidence. |
| DLR 4.4 | DLR 4.4. (i) STS has launched a taxpayer survey online based on tax compliance cost survey methodology to gather information on STS performance and integrity issues. DLR 4.4. (ii) STS has made survey findings publicly available. |
| Formula | Not scalable. Achievement of (i) and (ii) each qualifies for disbursement of 50 percent of the allocated amount. |
| Description | <ul style="list-style-type: none"> • The Taxpayer Survey will cover issues such as taxpayer satisfaction, perceived corruption, and quality of taxpayer services. The survey will be implemented by the State Tax Service with nationwide coverage. The survey findings will be compiled into a comprehensive report by the State Tax Service. The survey will include questions and use data collection methods aligned with the Tax Compliance Cost survey methodology that the World Bank has shared with the STS. • The Taxpayer Survey will be considered launched when the State Tax Service officially announces the commencement of data collection activities and begins surveying taxpayers according to the approved methodology. • The Taxpayer Survey findings will be made publicly available by publication on the State Tax Service's official website. |



| | |
|----------------------------|--|
| Data source/ Agency | State Tax Service |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect the Taxpayer Survey methodology, survey design, and survey report from the State Tax Service and transmit the necessary documentation to the IVA. • Verification: The IVA will review the documentation Taxpayer Survey provided by the State Tax Service to confirm that the survey meets the defined criteria and has been launched. Confirm that the Taxpayer Survey is publicly available. • Reporting: The IVA will summarize its findings in a verification report with supporting evidence. |
| DLR 4.5 | DLR 4.5. STS has used the data from the compliance risk management system to inform the selection of 60% of the audits of large taxpayers listed in the STS’s Register of Large Taxpayers. |
| Formula | Achieved if data from compliance risk management system is used for the selection of 60% of large taxpayer audits. Each 20 percent of large taxpayer audits qualifies for one third of disbursement. |
| Description | <ul style="list-style-type: none"> • Compliance risk management system is a systematic approach used to identify, assess, prioritize, and mitigate risks related to taxpayer non-compliance with tax laws and regulations. • According to the current Tax Code of Ukraine, a “large taxpayer” is a legal entity or a permanent establishment of a non-resident in Ukraine whose income from all activities over the last four consecutive tax (reporting) quarters exceeds the equivalent of EUR 50 million determined on the basis of the weighted average official exchange rate of the National Bank of Ukraine over the same period or if the total of taxes, duties, and fees paid to the State Budget of Ukraine, whose collection control is vested in control agencies, other than customs charges, over the same period exceeds the equivalent of EUR 1.5 million determined on the basis of the weighted average official exchange rate of the National Bank of Ukraine over the same period”. |
| Data source/ Agency | State Tax Service |
| Verification Entity | Independent Verification Agent |
| Procedure | <ul style="list-style-type: none"> • Data collection: The PIU will collect audit records and process documentation from STS covering all registered large taxpayers. • Verification: The IVA will verify the records to confirm the use of the compliance risk methodology for the selection of all audits of large taxpayers. • Reporting: The IVA will prepare a verification report and submit it to the relevant authorities. |



ANNEX 2. TECHNICAL ASSESSMENT

A. INTRODUCTION

1. This Technical Assessment (TA) presents the Bank’s technical appraisal of Supporting Reconstruction through Smart Fiscal Governance (SURGE) Program for Results. The Program seeks to establish the institutional foundations for Ukraine’s implementation and financing of climate-smart recovery and reconstruction. The Program supports of Ukraine’s reforms in public investment management, local public financial management, local fiscal governance, and revenue administration. This Technical Assessment reviews the following aspects of the Program: (a) strategic relevance and technical soundness; (b) expenditure framework; (c) results framework and monitoring and evaluation capacity; and (d) economic evaluation.

B. PROGRAM STRATEGIC RELEVANCE

2. The Program aligns with the Government of Ukraine reform program and builds on previous PFM reform efforts. The PFM Reform Strategy Action Plan, the PIM Reform Roadmap, and the NRS 2030 provide a robust operational framework to advance key reform priorities for strengthening institutions and systems. The PFM Action Plan builds on the lessons from the latest World Bank PEFA assessments for central government and Local governments. The MoF prepared the PFM Reform Strategy Action Plan through a consultative process with the development partners. The PIM Reform Roadmap integrates recommendations from recent World Bank and the International Monetary Fund (IMF) assessments and on-going technical assistance. The NRS identifies the measures needed to adapt tax and customs legislation to European Union standards, one of the structural measures stipulated by the IMF’s Extended Fund Facility (EFF) program.

3. The Program focuses on foundational reforms that are both critical for recovery and reconstruction and are under the control of the MoF, in coordination with other center of government entities. The Ministry of Finance’s control over the implementation reform agenda is important because the Program will be an important source of finance for the State Budget during the implementation period and the Ministry wishes to minimize the risk of delays in disbursements. Priority reforms include interventions to support improvements in institutions, business processes, and capacity development in core management systems. Table A.1 below summarizes the current challenges, the Government’s fiscal reform priorities, and the systems and tools that will be developed under the reform program.

Table A.1: Overview of Government of Ukraine Fiscal Reform Priorities

| Area/ Aspect | Public Investment Management | Local Public Financial Management | Local Fiscal Governance | Revenue Administration |
|--------------------|---|---|---|--|
| Current challenges | <ul style="list-style-type: none"> Multiple agencies with overlapping roles, leading to disjointed project management and coordination. Lack of differentiated approaches to projects based on their scale and impact. Weak implementation: high rates of suspended and unfinished projects due to inadequate monitoring and evaluation. Inadequate assessment of climate impacts and risks | <ul style="list-style-type: none"> Lack of integration and coordination between different levels of government in budget planning. Limited expertise and data for effective medium-term budget frameworks. Weak budget execution and lack of transparency in financial management processes. Inadequate consideration of service delivery performance, gender differentiated needs, and | <ul style="list-style-type: none"> Local governments are heavily reliant on central transfers, leading to vertical fiscal imbalances. Insufficient capacity for strategic planning and budget preparation at local levels. Disruption of fiscal capacity and service delivery. Changes in the distribution of the population have generated horizontal imbalances in the allocation of intergovernmental transfers. | <ul style="list-style-type: none"> Inefficiencies in tax administration due to a narrow tax base and a large informal economy. Overstaffing in tax services with a focus on low-value tasks, hindering effective tax collection. High compliance costs and perceived corruption affecting the efficiency of tax collection. |



| Area/ Aspect | Public Investment Management | Local Public Financial Management | Local Fiscal Governance | Revenue Administration |
|---------------------------|--|--|--|---|
| | during project identification, screening and appraisal. | climate related impacts in budgeting and reporting systems. | | |
| Reform priorities | <ul style="list-style-type: none"> Strengthening project planning aligned with strategic priorities and the medium-term budget framework. Ensuring a unified, transparent process for selecting investment projects. Developing clear guidelines for project appraisal, approval, and prioritization. Consideration of climate risks and impacts in the identification, preparation and appraisal of investment projects. Enhancing coordination and oversight to ensure timely completion of projects within budget. | <ul style="list-style-type: none"> Re-establishing medium-term budgeting to ensure fiscal predictability and stability. Enhancing transparency and accountability in the budget process. Developing standardized forms and guidelines for budget planning and execution. Improving financial controls and public debt management. Integration of climate change and gender considerations in program budgeting. | <ul style="list-style-type: none"> Building the capacity of Local governments for effective planning and project management. Improving mechanisms for intergovernmental transfers to ensure fair and transparent resource distribution. Establishing standardized guidelines for budgeting and financial management at the local level. Strengthening local governments' administrative and financial autonomy in alignment with national goals. | <ul style="list-style-type: none"> Introducing compliance risk management system and modernizing tax administration to increase efficiency. Implementing anti-corruption measures and regularly assessing service quality. Reforming the simplified taxation system and aligning revenue policies with EU standards. Utilizing new digital solutions to enhance tax and customs administration processes. |
| New systems/ tools | <ul style="list-style-type: none"> Strategic Investment Council: A newly established body to oversee and coordinate strategic investment priorities and approve a unified project pipeline. Integration of DREAM, Budgeting, and Procurement Systems: Creating a seamless flow of information across different systems for better governance and decision-making. | <ul style="list-style-type: none"> Strategy for Public Finance Management System Reform: A roadmap to modernize and improve the PFM system. Integration of Treasury IT Systems: Enhancing interoperability and information exchange between budgeting, procurement, and treasury systems. | <ul style="list-style-type: none"> Action Plan on Reforming Local Self-government and Territorial Organization: A framework to address administrative and territorial reforms comprehensively. Integration of Local Government Budgeting IT System (LOGICA): An advanced IT system to support improved planning, budgeting, and transparency at the local level. | <ul style="list-style-type: none"> National Revenue Strategy 2030: A comprehensive strategy to reform and modernize revenue policy and administration. Integration of digital solutions: Implementing advanced IT solutions to streamline tax administration and improve data security. |

4. **The interventions build on ongoing or planned reforms with strong stakeholder ownership, supported by policy dialogue of the EU, IMF, World Bank, and other partners.** The reform agenda benefits from technical assistance from a variety of development partners, including the World Bank, IMF, European Commission, United Kingdom FCDO, United States Treasury, and USAID.

5. **The Program seeks to strengthen to Ukraine's institutional capability to implement and finance recovery and reconstruction.** The PDO will be measured through four PDO indicators across two dimensions of capability: Implementation and financing.

Implementation capability:

- **PDO Indicator 1:** Public investment projects are aligned with strategic sustainable development priorities.

This indicator assesses the government’s ability to prioritize and execute public investment projects in accordance with strategic and climate change objectives.



- **PDO Indicator 2:** Local governments publish information on their budgets, debt and service delivery and reconstruction performance.

These indicators assess the transparency and accountability of budget spending, including on response and recovery efforts.

- **PDO Sub-Indicator 2.1:** Local governments publish gender information on their budgets and service delivery and reconstruction performance.

Financing capability:

- **PDO Indicator 3:** Transfers to local governments are transparent and aligned with their service delivery and reconstruction needs.

This indicator assesses the consistency between the amount of intergovernmental transfers and indicators of service and reconstruction needs.

- **PDO Indicator 4:** STS uses compliance risk management system for large taxpayer audits.

This indicator assesses improvements in the government’s tax compliance processes, which will improve revenue mobilization for recovery and reconstruction.

6. **The Program is structured around four key results areas.** These results areas are: public investment management for reconstruction to prioritize and align public investment projects with strategic objectives and long-term development goals and establish streamlined processes for the timely review of funding requests from local governments; local government fiscal governance for recovery to strengthen institutional capacities for accurate population estimation to inform intergovernmental transfers and strengthen public financial management institutions and practices at the local level; and revenue administration for enhance integrity to implement measures to enhance tax compliance rates through improved tax administration and enforcement mechanisms. The Table below summarizes key results anticipated by the end of the Program.

Table A.2: Summary of the Program Key Expected Results

| Results Area | Expected Results |
|--|---|
| RA 1: Public Investment Management | <ul style="list-style-type: none"> • Enhanced coordination and transparency in project selection and implementation. • Integration of climate change considerations into investment decisions. • Streamlined and harmonized processes for reconstruction efforts. • Improved accountability through enhanced public consultations and third-party monitoring. |
| RA 2: Local Public Financial Management | <ul style="list-style-type: none"> • Increased citizen and stakeholder engagement in the decision-making process. • Integration of gender analysis and climate considerations into budget programs to address specific needs. • Upgraded local government budgeting systems to improve data management and analysis. • Improved debt management transparency and financial controls to ensure sustainability. |
| RA 3: Local Fiscal Governance | <ul style="list-style-type: none"> • Reduced funding gaps and enhanced financial capacities of local governments. • Improved efficiency and effectiveness in resource allocation at local levels. |
| RA 4: Revenue Administration | <ul style="list-style-type: none"> • Modernized tax policy and administration leading to increased revenue mobilization. • Strengthened compliance management and data security to reduce tax evasion and fraud. • Simplified taxation system to improve ease of compliance for taxpayers. • Reduced corruption within the State Tax Service through integrity measures and digital solutions. |

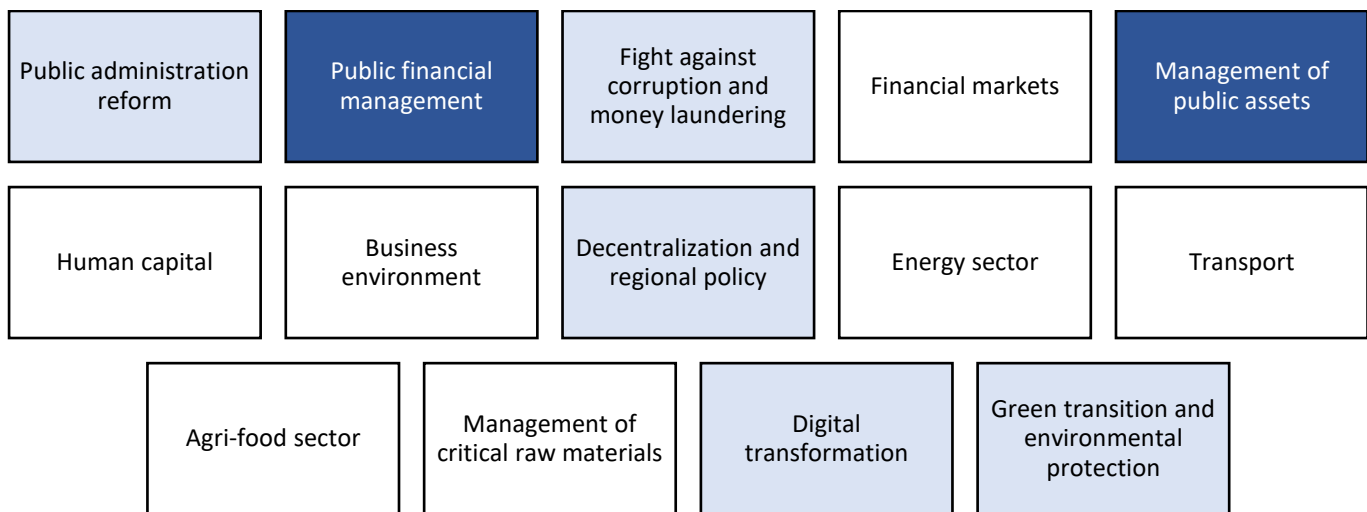
7. **DLIs are selected based on their relevance to the program objectives, feasibility of measurement, potential for demonstrating progress toward desired outcomes and the ability of the Ministry of Finance to directly influence implementation.** The Program's results framework and monitoring and evaluation mechanisms are robust, providing a



framework for tracking progress and assessing the effectiveness of program interventions. Many of the DLIs are linked to budget routines. This should facilitate reporting and provide the Ministry of Finance with an effective tool to incentives the adoption of new business processes. The Program's governance structure and institutional arrangements are designed to promote effective coordination and collaboration among the key stakeholders: the Ministry of Finance as Implementing Agency and the Ministry of Economy and Ministry of Communities and Territories Development as Implementing Partners. Clear roles and responsibilities are defined to ensure accountability and transparency in program implementation.

8. **The Program supports the implementation of key government reforms outlined in the Ukraine Plan 2024—2027 and other key strategic documents aimed at fostering the country's recovery, reconstruction, and modernization while facilitating future accession to the European Union.** Key reforms across fiscal, public administration, public investment, and public finance areas are prioritized to achieve these objectives. Fiscal reforms target tax administration and public debt management to ensure stable fiscal policies and enhance investor confidence. Public administration reforms seek to modernize government functions for improved service delivery and governance. Public investment reforms focus on strategic planning and effective implementation to attract private sector participation and promote sustainable development. Public finance reforms aim at enhancing transparency, accountability, and efficiency in managing public funds, ultimately fostering socio-economic development, competitiveness, and alignment with international standards, particularly those of the EU.

Figure A.1. Ukraine Plan 2024—2027 Reform Priorities



9. **The Government reform program seeks to build back better with a strong focus on climate change resilience and sustainability.** The Ukraine Plan presents a comprehensive program of support for recovery, reconstruction, and modernization. The Plan supports Ukraine's reforms on the path to EU accession, finances essential public services, and fosters Ukraine's transition towards a green, digital, and inclusive economy. The approach includes strong safeguards, such as a robust framework for audit and control, and a dedicated independent Audit Board to scrutinize the use of funds. Additionally, the approach involves partnership with international financial institutions to ensure accountability and support for Ukraine's recovery and modernization. The reform agenda outlined in the Ukraine Plan is presented the Figure above; areas covered by the Program are colored in dark blue and the areas that the Program is linked to are colored in light blue. In addition, the Table below shows how the PforR Program is designed to support key reform areas that align with the government's strategic objectives, with a specific focus on reconstruction and modernization.



Table A.3. Comparison between the Government and SURGE PforR Program

| Item | Government Program | SURGE PforR Program |
|--------------------------------------|---|---|
| 1. Title | Ukraine Facility Plan (2024-2027) | Supporting Reconstruction through Smart Fiscal Governance Program-for-Results |
| 2. Objectives | Modernize Ukraine’s economy, advance EU accession, promote sustainable growth, attract priority investments, and enhance resilience. | Support reconstruction, enhance public investment management, improve fiscal governance, and modernize revenue administration. |
| 3. Duration | 2024-2027 | 2024-2026 |
| 4. Geographic Scope | National and local | National, with focus on affected areas and local governments (Local governments) |
| 5. Key Components/Areas | 1. Public Investment Management 2. Public Financial Management 3. Local Fiscal Governance Reforms 4. Revenue Administration | 1. Public Investment Management 2. Public Financial Management 3. Local Fiscal Governance Reforms 4. Revenue Administration |
| 6. Strategic Documents | Ukraine Facility Plan, Strategy for Public Administration Reform in Ukraine (2022-2025), PIM Reform Roadmap, Action Plan on Reforming Local Self-government (2024-2027), Strategy for Public Finance Management System Reform (2022-2025), National Revenue Strategy 2030 | PIM Reform Roadmap, Action Plan on Reforming Local Self-government (2024-2027), Strategy for Public Finance Management System Reform (2022-2025), National Revenue Strategy 2030 |
| 7. Internal Stakeholders | Ministry of Finance (MoF), Ministry of Economy (MoE), Ministry of Communities and Territories Development (MCTD), Local Governments (Local governments), Line Ministries, Civil Society Organizations (CSOs) | Ministry of Finance (MoF), Ministry of Economy (MoE), Ministry of Communities and Territories Development (MCTD), Local Governments (Local governments), Line Ministries, Civil Society Organizations (CSOs) |
| 8. External Stakeholders | European Union (EU), World Bank (WB), International Monetary Fund (IMF), European Investment Bank (EIB), Foreign, Commonwealth & Development Office (FCDO), Organization for Economic Co-operation and Development (OECD), Canada, Sweden, USAID | European Union (EU), World Bank (WB), International Monetary Fund (IMF), European Investment Bank (EIB), Foreign, Commonwealth & Development Office (FCDO), Organization for Economic Co-operation and Development (OECD), Canada, Sweden, USAID |
| 9. Key Activities and Reforms | PIM: Streamline project planning and selection, establish Strategic Investment Council, integrate digital systems (DREAM, Prozorro). PFM: Resume medium-term budgeting, improve fiscal transparency and public participation, strengthen debt management. Local Fiscal Governance: Improve intergovernmental transfer mechanisms, enhance local budget equalization, strengthen municipalities’ strategic planning. Revenue Administration: Digitize tax administration, reform simplified tax regimes, combat corruption. | PIM: Develop a comprehensive action plan, centralized coordination mechanisms, climate change mitigation, adaptation and resilience considerations, digital integration. PFM: Enhance resource allocation, fiscal transparency, and accountability, digital transformation. Local Fiscal Governance: Review intergovernmental transfer mechanisms, reintroduce medium-term budgeting, enhance program budgeting, gender-sensitive budgeting. Revenue Administration: Strengthen integrity and anti-corruption measures, implement digital solutions, improve taxpayer services, align with EU standards. |
| 10. Expected Outcomes | Enhanced resilience, efficient use of public funds, sustainable growth, improved public administration, transparent fiscal governance, modernized economy. | Improved alignment of resource allocations with strategic priorities, efficient public investment, systematic consideration of climate change, enhanced local service delivery, gender equality in budgeting, strengthened fiscal governance, modernized tax administration. |

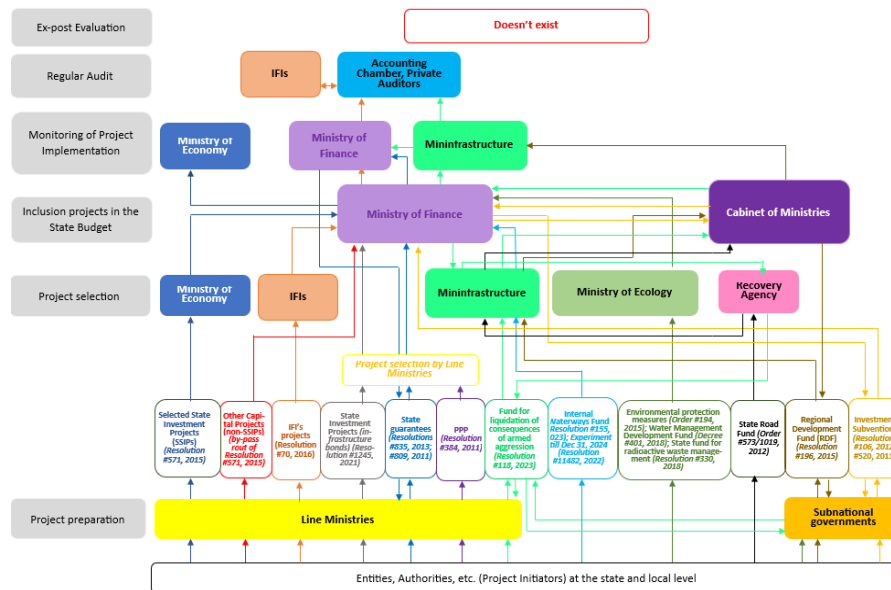


C. TECHNICAL SOUNDNESS

Results Area 1: Public Investment Management

10. Ukraine’s public investment management systems is characterized by fragmentation and lack of clear lines of accountability. A 2022 World Bank Public Investment Management Assessment found multiple regulatory frameworks and legal instruments leading to inconsistent procedures and unclear institutional accountability (see Figure A2.1). There are twelve distinct pathways for identifying and approving public investments, with decision-making and oversight roles and responsibilities spread across multiple entities such as the Ministry of Finance, the Ministry of Economy, the Ministry of Communities and Territories Development, the State Agency of Renovation, line ministries, and local governments. Multiple agencies share project selection responsibilities, without adequate consideration of project risk or impacts. The Ministry of Finance's (MoF) crucial gatekeeping function, linking the investment pipeline and portfolio with available public resources, is not effectively integrated into project approval procedures. There is no systematic process of or consistent methodology for project appraisal. The PIM system does not systematically consider climate change risks, impacts and policies. Nor are gender considerations taken into account. Responsibility for project monitoring not clearly defined. There are no ex-post evaluation procedures except for projects financed by International Financial Institutions (IFIs). These institutional shortcomings result in poor policy alignment, weak prioritization, inefficiencies, and implementation delays. The public investment management system is ill-prepared for the huge increase in resources that will need to be applied for recovery and reconstruction.

Figure A.2 Institutional Responsibilities for Public Investment Management in Ukraine



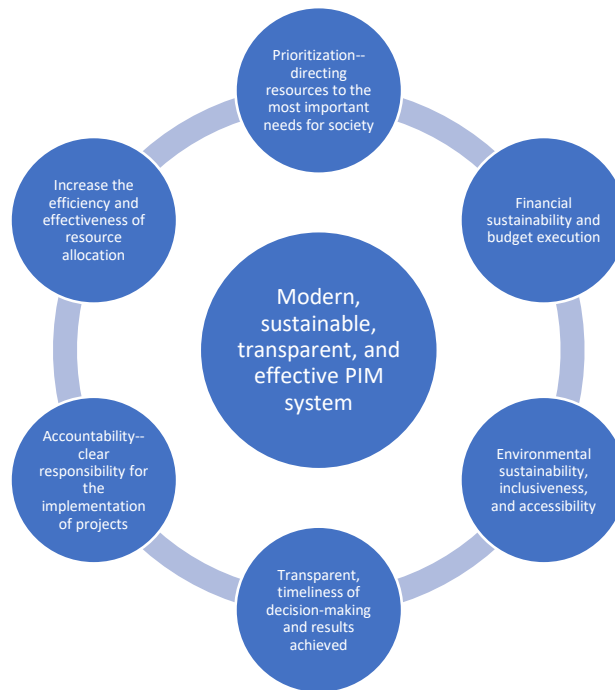
Source: Ukrainian legislation, regulations, and World Bank staff analysis

11. The Government of Ukraine has initiated a PIM reform program to address the fragmentation and inefficiencies within the system and prepare for recovery and reconstruction. The reform aims to establish a standardized and rigorous approach to PIM, focusing on strategic planning, transparent project selection, and effective implementation. The reforms will improve institutional coordination, strengthen strategic planning at central and territorial levels, provide guidance on project appraisal, ensuring accountability through public consultations and third-party monitoring, and enhancing capacity building and regulatory frameworks. Reform will integrate climate change and gender considerations into PIM practices across the project cycle. The PIM system will actively promote opportunities for private sector participation through Public-Private Partnership (PPP) arrangements. The PIM system will be integrated into the broader



financial and budgetary framework, with the Ministry of Finance playing a prominent role in aligning financial resources with strategic priorities and needs, while line ministries, local governments, and to some extent, the Ministry of Economy and Ministry of Reconstruction will participate in preparing and prioritizing individual projects. Similar to the European Union's National Development Plans (NDP), this framework will outline expenditure commitments to address a range of strategic investment priorities determined by relevant ministries. The objectives of the Government PIM reform program are presented in the Figure A.4 below.

Figure A.3: Government PIM Reform Program Objectives



Source: Government of Ukraine.

12. **In the short-term, the Government will focus on the immediate needs of reconstruction while building the institutional capacity for PIM over the medium-term.** The short-term priority for public investment is the reconstruction of critical infrastructure that prioritize people's needs, focusing on providing housing, utilities, and employment opportunities to ensure returnees have access to essential services and livelihoods. In this context, PIM reform must adopt a pragmatic approach. The Program starts by putting in place key institutions of the PIM system: the Strategic Investment Council as the body that approves major investments and the PIM Units in the Ministry of Finance and Ministry of Economy. The Program supports the implementation of relatively simple, fast-track procedures that will facilitate preparation, prioritization, and approval of priority projects for the 2025 State Budget. The Program will develop and build capacity to apply more robust project preparation, prioritization, appraisal, and approval procedures for the 2026 State Budget that consider climate change impacts. The Program will develop supporting information systems alongside the development of methodologies and procedures. The information system will build on the DREAM platform, initially developed by civil society to identify reconstruction needs and subsequently adopted by the Ministry of Communities and Territories Development to support the project cycle. The Program will focus on the development of methodologies and procedures for the project cycle through to project approval during 2024 and then introduce methodologies and procedures to support project implementation in 2025.

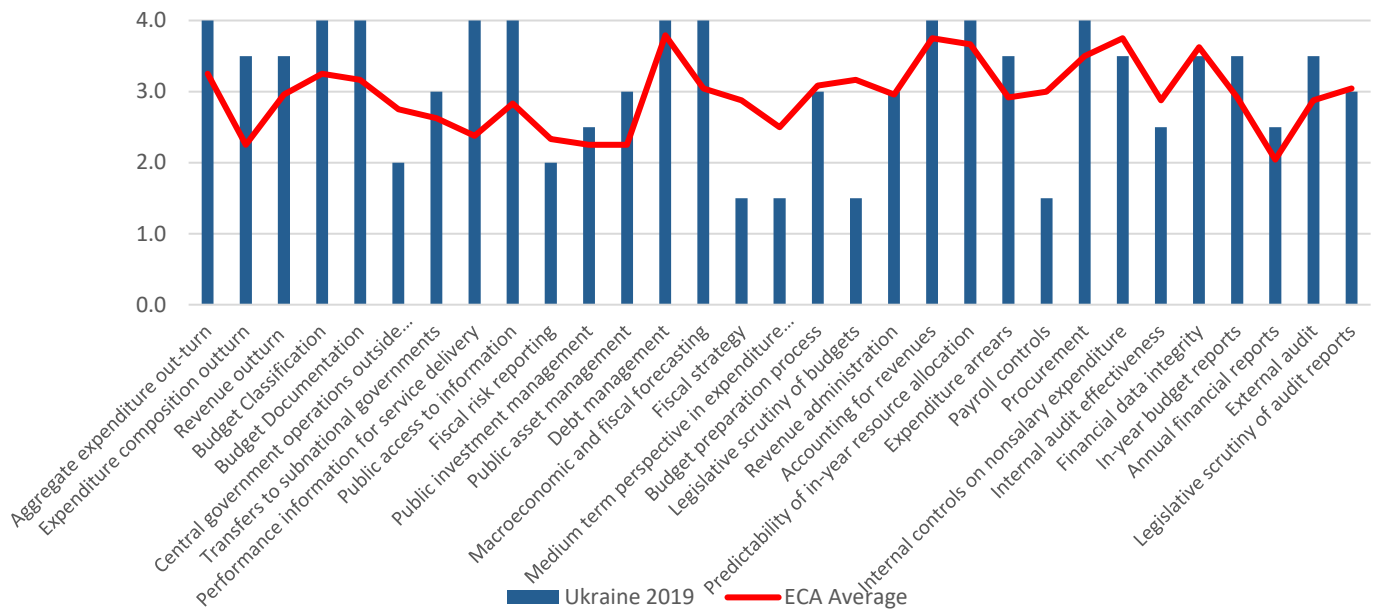


Results Area 2: Local Public Financial Management

13. Ukraine has been grappling with significant local government debt levels, stemming from factors such as inefficient public financial management and reliance on borrowing to cover budget deficits. To address these challenges, the country has embarked on debt management reforms aimed at enhancing transparency, accountability, and sustainability. These reforms include the establishment of a legal framework to regulate borrowing, implementation of debt monitoring and reporting systems, exploration of debt restructuring options, and capacity-building efforts for local government officials. International assistance and support have complemented domestic efforts, but challenges persist, including capacity constraints and economic instability. Continued commitment to reform and collaboration with international partners will be crucial for achieving sustainable debt management practices at the local level.

14. The Government of Ukraine has embarked on a comprehensive Public Financial Management reform program to strengthen capacity to manage the huge volume of resources needed for reconstruction. The reform prioritizes the enhancement of fiscal transparency, efficiency, and accountability, with a focus on strategic planning, budgeting, financing, and service delivery at both national and local levels. The PFM reform agenda addresses the system weaknesses identified by recent Public Expenditure and Financial Accountability (PEFA) assessments undertaken before 2022.

Figure A.4: Ukraine PFM Performance at the National Level



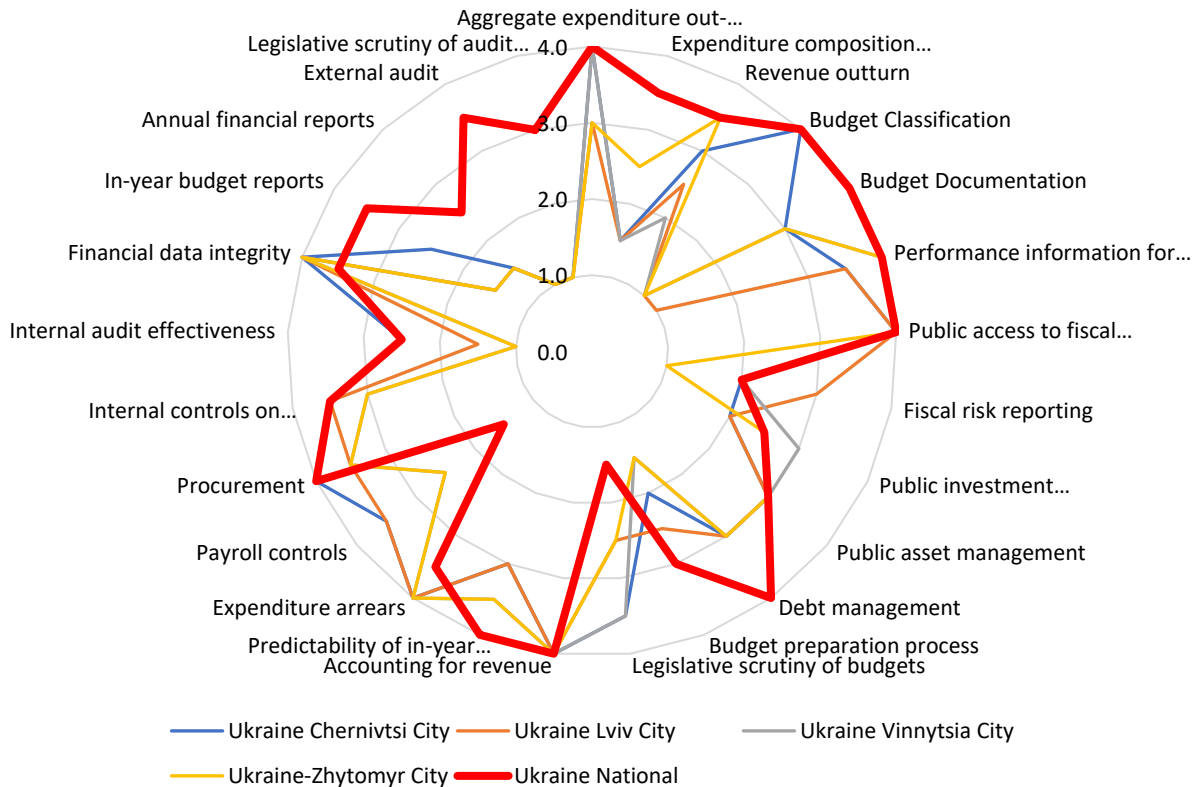
Source: PEFA, pefa.org.

15. At the central level, the principal weaknesses of Public Financial Management system lie in expenditure planning, payroll controls, fiscal risk reporting and internal audit. Figure A.5 presents the results of the national level PEFA assessment of 2019 compared to the ECA average. Ukraine demonstrates strong budget execution with accurate revenue projections and minimal arrears due to effective commitment controls. The Chart of Accounts facilitates comprehensive budget preparation and reporting, although full integration remains incomplete. Fiscal transparency is relatively strong with timely and comprehensive budget documentation and the introduction of a citizen’s budget. However, medium-term expenditure planning is limited, with budgeting focused predominantly on the upcoming fiscal year without integrating longer-term objectives or outcomes. Debt management practices are robust, but the strategy lacks specific borrowing targets. The public procurement system, particularly through the ProZorro platform, is



transparent and efficient, though the proportion of competitive auctions could be higher. Internal controls and audit functions are developing, with effective compliance mechanisms in place, supported by the E-Treasury system. However, internal audits primarily focus on compliance, and there is a need for more comprehensive auditing of financial statements from state-owned enterprises and local governments.

Figure A.5: Comparison of Ukraine PFM Performance at the National Level and selected Local Levels



Source: PEFA, pefa.org

16. **Assessments reveal similar weaknesses in expenditure planning, public investment management, fiscal risk reporting, internal control, and external oversight at the local level.** Figure A.6 summarizes the results of PEFA assessments undertaken in four cities across Ukraine in 2021. Some local governments made progress in implementing medium-term budget frameworks, but others struggled leading to a disconnect between strategic plans, medium-term expenditure plans and budgets. This is partly a consequence of inadequate methodologies, limited use of IT solutions and tools, and limited technical training to support local government budget planning. Rudimentary performance budgeting systems have been put in place, but the performance indicators are not standardized and the links between budgets and performance targets are often poorly developed. These problems extend to public investment planning where the lack of strategic orientation leaves resources dispersed across numerous small projects rather than prioritized for larger. Implementation is hindered by capital transfers occurring late in the fiscal year. Many of local governments have yet to put in place an independent internal audit function and most are not subject to systematic external audits owing to the limited capacity of the State Accounting Chamber.

17. **Local governments have made limited progress in gender budgeting and have yet to start the integration of climate considerations in the budget process.** Ukraine introduced gender-responsive budgeting in 2013 to enhance gender equality and improve the efficiency of public spending. At the national level, Ukraine made significant progress by developing a unified methodology, conducting gender-based analyses of budget programs, and incorporating gender



perspectives into budget requests and explanatory notes. However, challenges persist in consistently incorporating gender analysis into budgetary processes, with insufficient gender-disaggregated data and analysis in policy proposals and budget documentation, indicating a gap between policy and implementation. Local PEFA Gender assessments point to deficiencies in gender-responsive analysis across expenditure and revenue policies, public investment management, and budget formulation. Local government budgets take no account of climate change risks, impacts and policies. There are no systematic risk exposure tools to support risk assessment and budget templates and methodologies do not address climate considerations.

18. **The Governments PFM reform agenda for recovery and reconstruction focuses on the reforms at the local government level that have proved most difficult to implement in the past: expenditure planning, fiscal risk reporting, and performance, gender and now climate budgeting.** The Government recognizes that the development of this capacity is a long-term agenda. However, the Government is determined to invest in this capacity from the start the recovery and reconstruction process. Expenditure planning capacity will help local governments align the allocation recovery and reconstruction funds with priorities identified locally and keep local government budgets on a sustainable path. Improvements in fiscal risk reporting will enable local governments to make more effective use of their new borrowing authority. Performance budgeting will help tie budgets to service delivery priorities and improve management accountability and transparency. Government is determined to revitalize gender budgeting so that local governments take account of gender considerations and the needs of those that have been severely impacted when allocating resources. The introduction of climate considerations will help local governments identify climate risks and take climate impacts and policies into account as part of the build back better agenda.

19. **The challenge for the Program is to deliver on these ambitions whilst recognizing limited capacity in the local government.** The Program will prioritize the development of simple tools and templates that facilitate data collection, analysis and budget preparation. Expenditure planning and budgeting methodologies will allow for progressive integration of medium-term, performance, gender and climate considerations in budgets to accommodate different skills levels across local government and the development of these skills over time. The Program will support the development of training materials and courses that follow this progressive approach and can be rolled out cost effectively across the large number of dispersed local governments.

Results Area 3: Local Fiscal Governance

20. **In 2014 Ukraine started a decentralization reform to fundamentally change the power of local self- governance, shifting more responsibilities to local government (3rd tier) as a policy stakeholder and core service provider.** These reforms sought to strengthen local self-governance, improve public service delivery, and promote regional development, applying the principles of the European Charter of Local Self-Government by delegating significant responsibilities to newly organized territorial administrations. Some 10,000 local communities, towns, and settlements were consolidated into 1,470 amalgamated or unified communities. Implementation of these reforms is still underway: the functional and policy mandates of regional (1st tier) and subregional (2nd tier) governments have yet to be defined. Before 2022, local governments were heavily dependent on transfers from central government with own-source revenues covering just 15 percent of local government expenditures in 2021. Most of these transfers covered service delivery functions. Local governments' share in the general government budget exceeded 40 percent, but only 5 percent of public investment, with about three quarters of investment funds channeled through 1st and 2nd tier Local governments. Reconstruction will pose significant challenges for 3rd tier local governments. Reconstruction will entail a significant increase in resources, with 2nd and 3rd local governments playing a critical role in ensuring that reconstruction responds to locally identified needs and priorities.

21. **The reform agenda seeks to strengthen local governance and service delivery.** Firstly, by decentralizing authority and increasing local autonomy, the program aims to enhance the efficiency and responsiveness of local governments to the needs of their communities. This includes better management of public resources, improved public service delivery, and strengthened regional development initiatives. Secondly, the reforms are designed to boost local economic



development by providing local governments with more financial independence and the ability to generate their own revenues, thereby reducing reliance on central government transfers. Thirdly, the emphasis on intergovernmental coordination and strategic planning will foster a more integrated approach to regional and municipal development, ensuring that reconstruction efforts are aligned with local priorities and sustainable development goals. Finally, the incorporation of robust public engagement and consultation mechanisms will ensure that the voices of citizens and stakeholders are heard, and that the recovery process is inclusive, transparent, and accountable. Through these reforms, Ukraine aims to build resilient, self-sufficient local governments that can effectively lead their communities through reconstruction and future development.

22. **The Government of Ukraine is implementing reforms to the Intergovernmental Fiscal System to address the immediate needs of local governments and to build capacity for subsequent reconstruction efforts.** The reforms seek to enhance regional and municipal governance, tackle funding gaps, strengthen local government capacity to manage resources and promote multi-level governance structures. The reforms include enhancements to the regulatory framework including the Budget and Tax Codes that improve the targeting of personal income tax credits to local governments reflecting population displacements and enhance equalization mechanisms. Intergovernmental coordination efforts focus on improving transfer mechanisms and bolstering strategic planning and project management capacities at the municipal level. The Government is developing public engagement and consultation methodologies to ensure citizen and stakeholder involvement in the recovery process. Institutional capacity-building initiatives target local self-government associations and statistical data analysis capabilities.

23. **An Additional Grant will compensate local governments for the loss of revenues in areas affected.** Eligible local governments include those in severely impacted areas. The Additional Grant addresses budget imbalances caused by the loss of revenue by covering the payroll for budget institution employees. The Ministry of Finance determines the grant allocation and transfers funds to beneficiary local governments. Local governments determine how funds will be applied. The grant is allocated in two stages: the first stage considers land tax, real estate tax, and a single tax receipt, while the second stage is calculated quarterly based on personal income tax and other tax receipts. In territories not under government control, the Additional Grant is allocated by the oblast military administration, following a detailed procedure that includes calculation, allocation, reporting, and control mechanisms to ensure effective utilization of the grant.

Results Area 4: Revenue Administration

24. **Ukraine will need to massively increase revenues to finance recovery and reconstruction.** Tax to GDP in Ukraine increased from just 13 percent in 2001 to just over 20 percent in 2016 but subsequently declined to 19 percent in 2021, dropping sharply to 17 percent in 2022. Over the ten years before the Value-Added Taxes (VAT) generated about 40 percent of revenues, Personal Income Tax (PIT) about 26 percent, Corporate Income and Dividend Taxes 21 percent, and Excise Taxes 13 percent. Tax performance is undermined by a narrow tax base, a consequence of the invasion, multiple exemptions, inefficient tax administration, and rampant corruption.

25. **Tax performance is hampered by inefficient tax administration.** The State Tax Service (STS) is overstaffed, with each staff member serving just over 100 taxpayers as compared to over 1,100 taxpayers in Slovenia, 407 in Poland, and 351 in Slovakia (World Bank, IOTA information and Bank staff calculations). Many STS staff work on low-value-added processes. Around 30 percent of staff deal with registration, taxpayer services, and payment processing, whereas globally, just 8 percent of staff work on these tasks. In modern tax administrations, most staff are employed in higher value-added tasks such as compliance management, investigations, and data analytics. Ukraine has made extensive use of information technology in tax administration: 100 percent of payments are made electronically, and Ukraine has a system of electronic VAT invoices. STS has a comprehensive strategy to ensure tax compliance and deter evasion. Audits scrutinize financial statements, accounting records, and relevant documentation to identify discrepancies indicating potential evasion. STS employs a Standard Audit File (SAF) for standardized electronic data exchange, facilitating efficient information sharing and enhancing audit processes and tax administration. However, STS faces challenges maintaining



data quality across diverse accounting systems and overcoming capacity and expertise gaps among tax officials conducting audits. IT systems are fragmented, data is used transactionally rather than to support strategy and risk-based compliance management, and STS lacks automatic access to third-party information. The outdated administration model leads to high compliance costs for taxpayers.

26. **The tax system's complex architecture, characterized by multiple exemptions, and regulations, exacerbates compliance burdens on taxpayers while fostering avenues for evasion and avoidance.** According to Enterprise Survey 2019, 36 percent of Ukrainian taxpayers reported that they were expected to give gifts when meeting with tax officials. This is five times higher than the ECA average and compares to 35 percent in Albania, 13 percent in Croatia, 9 percent in Bulgaria, and 3 percent in Poland. Perceived corruption in tax administration undermines tax morale and creates opportunities for tax avoidance.

27. **The National Revenue Strategy 2030 (NRS), developed in 2023 with support from Ukraine's development partners, addresses weaknesses in the tax code and institutional capacity.** The NRS outlines reforms to strengthen integrity, improve service quality, and implement digital solutions for tax administration. Priorities include strengthening compliance management, enhancing data security, reforming the simplified taxation system, and aligning corporate income tax rules with EU standards. Alongside the technical measures, the NRS seeks to improve governance by fostering transparency, modernizing administrative infrastructure, and institutionalizing ethical standards within revenue administration agencies. Technical assistance from international partners will support NRS implementation with the IMF, US Treasury and the European Commission taking the lead. These partners will support on strategic planning, change management, and modernization of tax administration practices.

28. **The Program focuses on critical elements NRS governance reforms: taxpayer feedback; compliance risk management; and the implementation of the State Tax Service's Anti-Corruption Strategy.** The World Bank is currently working with the State Tax Service on a pilot taxpayer survey that will help generate baseline data and inform the design of future taxpayer surveys. The Program will support the implementation of a follow-up taxpayer survey and help institutionalize the practice. It will focus on STS's employment of a comprehensive approach to compliance risk management, audit procedures, and anti-corruption efforts. STS will implement anti-corruption measures to prevent bribery and collusion, collaborating with other agencies to enhance integrity in tax administration.

D. PROGRAM EXPENDITURE FRAMEWORK

29. **The Program Expenditure Framework is \$2,736.78 million, of which \$450 million is currently funded by IBRD and \$300 million from the IDA SPUR, \$1,237.54 million covered from the government financing, and \$800 million is a financing gap.** The financing gap will be closed by expected additional contributions from donors in 2025 and 2026. The structure of disbursements is front loaded with \$210 million (30 percent) disbursed as an advance and as prior results achieved between the Project Concept Note (dated March 6, 2024) and Program effectiveness. Table A2.4 presents the allocation of funds across DLIs and DLRs. The 2024 budget includes provision for the Program Expenditure Framework. The Program Expenditure Framework is reviewed in the Fiduciary Assessment in Annex 2.

30. **The Program Expenditure Framework is sustainable and aligns closely with the IMF program requirements.** Ukraine finances significant financing needs owing to the financial burden posed by military expenditures, which are predominantly covered by internal sources. Donor financing helps bridge the budgetary gaps providing funds that support on-going Government operations and services delivery, emergency recovery and reconstruction of critical infrastructure, with limited funding for investments in long-term development. Ukraine has managed its financing needs through a combination of international assistance, domestic borrowing, and the monetization of the residual financing gap. This balanced distribution of financial sources is crucial for maintaining economic stability and supporting key public services. The IMF program's alignment guarantees that the expenditure framework adheres to internationally recognized financial standards and practices, promoting fiscal responsibility and economic resilience.



31. **The Program Expenditure Framework will be closely monitored to ensure that the financing of the government program remains adequate.** This monitoring is essential to maintain transparency and accountability in the use of funds, ensuring that the allocated resources effectively support the intended outcomes of the Program. Regular assessments will be conducted to track progress, identify any discrepancies, and implement corrective measures promptly. This proactive approach to monitoring helps build trust among stakeholders and ensures that financial resources are used efficiently and effectively.

E. DISBURSEMENT LINKED RESULTS

32. **The budget allocation is distributed across DLIs to ensure focused support for key areas of development.** Each DLI receives a specific amount of funding, reflecting the program's priorities. Based on the overall financing envelope (current and future financing), initiatives under DLI 1 receive largest share, with 44 percent dedicated to aligning public investment projects with sustainable development priorities. DLI 2 has 35 percent of overall funds allocated to improving local government performance reporting and financial management. DLI 3 and DLI 4 receive 11.3 percent and 9.7 percent of the total funding, respectively, to enhance intergovernmental transfers for service delivery and reconstruction needs and strengthen tax compliance risk management.

Table A2.4: Fund Allocations Across the DLRs and Expected Impact

| Disbursement-linked Results (DLRs) | Expected impact | Timing | Allocation (US\$, millions) |
|--|---|----------------|-----------------------------|
| DLI 1: Public investment projects are aligned with strategic sustainable development priorities. <u>Baseline:</u> (i) fragmented PIM system; (ii) unclear definition of public investment project; (iii) roles of central agencies and project proponents (line agencies and Local governments) are not clearly identified; (iv) unclear process for inclusion of public investment in the budget; (v) lack of standardized methodologies for project identification, prioritization, preparation, appraisal, approval, and monitoring across central and local governments; (vi) the public investment process does not systematically consider climate risks and impacts; (vii) local governments' capacity in the management of reconstruction projects is varied and often limited; and (viii) PIM IT systems are not interoperable. | | | |
| DLR 1.1. (i) The Cabinet of Ministers has approved the PIM Action Plan that includes requirements for public investments to integrate climate change and energy efficiency considerations. DLR 1.1. (ii) MoE and MoF have established and appointed core staff members of PIM units. | <ul style="list-style-type: none"> Increased accountability: Clear roles and responsibilities of PIM units enhance accountability in project planning, execution, and monitoring. Improved implementation: Strengthened capacity ensures effective implementation of the Action Plan, addressing past challenges of fragmented management and under-execution of projects. | September 2024 | 55.00 |
| DLR 1.2. (i) The Cabinet of Ministers has established the Strategic Investment Council (SIC) as the sole authority for the approval of a single project pipeline of public investment project concepts. DLR 1.2. (ii) SIC approved a single project pipeline of public investment project concepts for 2025 budget based on prioritization criteria that include the alignment with strategic priorities and climate considerations; and MoF only included projects in the 2025 Budget submission approved by SIC. | <ul style="list-style-type: none"> Strategic project alignment: The establishment of the SIC ensures alignment of investment projects with national development priorities, optimizing resource allocation. Enhanced project prioritization: Prioritization of project concepts by government agencies focuses resources on high-impact initiatives, addressing historical issues of under-investment and project inefficiencies. Enhanced fiscal discipline: Gatekeeping by the Ministry of Finance will improve budgetary discipline, allocating resources more effectively towards priority projects endorsed by the SIC. | November 2024 | 140.00 |
| DLR 1.3. (i) The Cabinet of Ministers adopted amendments to the Budget Code establishing the Medium-Term Priority Public Investment Plan and a unified definition of public investment and public investment projects. DLR 1.3. (ii) MoF published information on projects selected for inclusion in the 2025 Budget Submission prior to parliamentary approval. | <ul style="list-style-type: none"> Enhanced project planning and transparency: Adoption of the Medium-Term Priority Public Investment Plan and a unified definition of public investment projects ensures consistent and transparent project planning and execution. Improved resource allocation: By publishing information on projects selected for inclusion in the 2025 Budget Submission prior to parliamentary approval, the government | January 2025 | 35.00 |



| Disbursement-linked Results (DLRs) | Expected impact | Timing | Allocation (US\$, millions) |
|--|---|----------------|-----------------------------|
| | enhances transparency and accountability in resource allocation, aligning investments with strategic priorities. | | |
| <p>DLR 1.4. (i) The Cabinet of Ministers has approved PIM Methodologies for project identification, prioritization, preparation, appraisal, and approval that include gender equality and climate change considerations.</p> <p>DLR 1.4. (ii) SIC approved a single project pipeline for 2026-2028 based on a prioritized list of projects concepts at the central level and relevant projects at the local level which includes gender and climate change considerations.</p> | <ul style="list-style-type: none"> Enhanced project impact: Integrating gender equality and climate change considerations (risk assessment, energy efficiency, GHG emissions) ensures projects are resilient and inclusive, contributing to sustainable development goals. Standardized PIM methodologies: Adoption of PIM methodologies improves the rigor of project appraisal and selection, ensuring projects are assessed consistently based on defined criteria. Enhanced project pipeline: Preparation of projects based on new methodologies ensures alignment with national priorities, promoting more effective resource allocation. Improved development outcomes: Projects integrating gender equality and climate change considerations contribute to sustainable development and resilience-building efforts, maximizing social and environmental benefits. | May 2025 | 140.00 |
| <p>DLR 1.5. (i) The Cabinet of Ministers has approved revised regulations and specifications for the DREAM system that contain the new public investment management procedures and build back better approach, including climate change adaptation and mitigation assessment, and civil society feedback modules.</p> <p>DLR 1.5. (ii) The Cabinet of Ministers has approved specifications for information exchange between the DREAM system, Prozorro, Treasury, and Budgeting systems and the interoperability requirements to link these systems.</p> | <ul style="list-style-type: none"> Improved data integration and streamlined processes: Enhanced interoperability facilitates real-time information exchange, improving decision-making and operational efficiency across PIM and related systems. | September 2025 | 65.00 |
| <p>DLR 1.6. (i) The Cabinet of Ministers has approved a Resolution requiring the application of the PIM Methodology for project monitoring, reporting, and evaluation that include gender equality and climate change considerations.</p> <p>DLR 1.6. (ii) MoE and MoF have trained at least 50 central government PIM specialists in new PIM procedures, including on integrating climate change considerations.</p> | <ul style="list-style-type: none"> Enhanced oversight: Institutionalized monitoring and evaluation frameworks ensure project accountability and performance assessment, reducing project risks and enhancing outcomes. Capacity building: Training of PIM specialists improves technical expertise and promotes standardized practices, ensuring consistent project management and evaluation, including integrating climate change considerations. | December 2025 | 55.00 |
| <p>DLR 1.7. (i) The Cabinet of Ministers has introduced a requirement for all projects included in the State Budget to be registered in the DREAM system.</p> <p>DLR 1.7. (ii) MoE, MoF, and MCTD have established daily reconciliation of data from the DREAM system with information from Prozorro, the Treasury, and the Budgeting systems.</p> <p>DLR 1.7. (iii) MCTD has operationalized climate change modules in the DREAM system that allow central and local governments to identify and address project-level climate-related physical risks (adaptation) and impacts (GHG emission mitigation).</p> | <ul style="list-style-type: none"> Integrated data management: Seamless integration enhances data accuracy and accessibility, supporting informed decision-making and resource allocation. Enhanced risk management: Climate change risk assessment modules strengthen infrastructure resilience, minimizing disruption risks and ensuring project sustainability. | June 2026 | 75.00 |



| Disbursement-linked Results (DLRs) | Expected impact | Timing | Allocation (US\$, millions) |
|---|--|---------------|-----------------------------|
| <p>DLR 1.8. (i) At least 80 percent of public investment projects approved for implementation are aligned with strategic priorities.</p> <p>DLR 1.8. (ii) At least 30 investment public investment projects include climate physical risk and impact mitigation measures in their project feasibility studies.</p> | <ul style="list-style-type: none"> Strategic alignment: Ensuring that projects approved for implementation align with strategic priorities enhances the coherence and effectiveness of public investments, focusing on high-impact areas. Resilient infrastructure: Integration of energy efficiency and climate risk assessments enhances infrastructure resilience, reducing vulnerability to climate-related disruptions. | December 2026 | 85.00 |
| <p>DLI 2: Local governments publish information on their budgets, debt and service delivery and reconstruction performance. <u>Baseline:</u> (i) Local governments' budgets are poorly aligned with policy objectives, with limited performance data, including data disaggregated by gender, no inclusion of climate considerations, and poor integration of medium-term plans with the annual budget cycle; (ii) limited ability and authority to borrow by most local governments.</p> | | | |
| <p>DLR 2.1. (i) The Cabinet of Ministers has approved the State Strategy of Regional Development of Ukraine.</p> <p>DLR 2.1. (ii) MoF has approved a revised Budget Methodology for the preparation of local government medium-term budget plans that includes gender information.</p> | <ul style="list-style-type: none"> Improved strategic planning: Alignment of regional development strategies with funding enhances long-term planning, ensuring efficient allocation of resources to priority areas. Enhanced budget transparency: Integration of gender-relevant performance information improves transparency and accountability in local budget processes, fostering public trust and participation. | November 2024 | 85.00 |
| <p>DLR 2.2. (i) The Cabinet of Ministers has approved revised procedures that provide for expanded authority of local governments to borrow from financial institutions other than commercial banks.</p> <p>DLR 2.2. (ii) MoF has approved a Methodology for Local Government Debt and Guarantee Management and Reporting.</p> | <ul style="list-style-type: none"> Enhanced fiscal discipline: Improved procedures and methodologies strengthen local government capacity to manage debt responsibly, reducing financial risks and ensuring sustainable fiscal policies. | November 2024 | 20.00 |
| <p>DLR 2.3. MoE has approved methodological recommendations for analyzing the environmental impact of public investment projects, including at the local level.</p> | <ul style="list-style-type: none"> Enhanced climate focus: Integration of climate-specific data improves the resilience of local public investment projects, reducing vulnerability to climate-related risks and enhancing sustainability. Informed climate risk assessments enable targeted resource allocation, optimizing investments in climate adaptation and mitigation measures. | June 2025 | 80.00 |
| <p>DLR 2.4. (i) Of the approved medium-term budget plans, at least 400 hromadas have included gender information and made the medium-term budget plans publicly available.</p> <p>DLR 2.4. (ii) At least 30 percent of hromadas' investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis.</p> | <ul style="list-style-type: none"> Improved accountability: Increased transparency in budgeting processes enhances accountability, reducing corruption risks and improving public trust. Gender and climate mainstreaming: Budgets integrating gender and climate change considerations promote inclusive development and sustainable practices, addressing community needs effectively. | December 2025 | 110.00 |
| <p>DLR 2.5. At least 90 percent of hromadas with debt obligations have reported monthly on their debt and guarantees.</p> | <ul style="list-style-type: none"> Enhanced financial transparency: Regular reporting improves transparency in local government finances, facilitating better decision-making and risk management. Strengthened financial oversight: Monitoring additional indicators enhances financial oversight, supporting proactive debt management and fiscal sustainability. | December 2025 | 75.00 |
| <p>DLR 2.6. MoF has upgraded local finance management information system (LOGICA) to digitally capture and report on medium-term budget plans and budget execution that include gender information.</p> | <ul style="list-style-type: none"> Improved financial management: Upgraded LOGICA system facilitates more effective monitoring and management of local budgets, | March 2026 | 40.00 |



| Disbursement-linked Results (DLRs) | Expected impact | Timing | Allocation (US\$, millions) |
|--|--|---------------|-----------------------------|
| | <p>enhancing accuracy, transparency, and accountability.</p> <ul style="list-style-type: none"> Streamlined reporting: Enhanced IT capabilities enable comprehensive financial reporting, supporting informed decision-making and public scrutiny. Enhanced climate focus: Integration of climate-specific data improves the resilience of local public investment projects, reducing vulnerability to climate-related risks and enhancing sustainability. Informed climate risk assessments enable targeted resource allocation, optimizing investments in climate adaptation and mitigation measures. Gender inclusion: Including gender-relevant information in financial reporting promotes gender-sensitive planning and budgeting, ensuring that the specific needs of different gender groups are addressed in local governance. | | |
| <p>DLR 2.7. (i) 400 hromadas have included gender information in publicly available budget execution reports.</p> <p>DLR 2.7. (ii) At least 60 percent of hromadas' investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis.</p> | <ul style="list-style-type: none"> Progress on development goals: Achievement of targets demonstrates local governments' commitment to integrating gender and climate considerations into budget execution, advancing sustainable development objectives. Policy alignment: Reporting outcomes inform policy adjustments, ensuring alignment with national strategies and international commitments. | December 2026 | 125.00 |
| <p>DLI 3: Allocations of intergovernmental transfers reflect updated service needs. <u>Baseline:</u> Fiscal transfers do not fully address the needs of affected communities.</p> | | | |
| <p>DLR 3.1. The Cabinet of Ministers has approved criteria and procedures for the allocation of Additional Grants to support the delivery of basic services in hromadas that have been negatively affected.</p> | <ul style="list-style-type: none"> Enhanced service delivery in affected areas: Additional grants directed to the most affected localities bolster local government capacity to deliver essential services such as healthcare, education, utilities, and social services, crucial for community resilience and recovery. Effective resource allocation: Targeted grants mitigate the fiscal impact of the invasion, ensuring that resources are efficiently allocated to areas with the greatest needs, thereby supporting equitable service delivery across communities. | April 2024 | 35.00 |
| <p>DLR 3.2. The Cabinet of Ministers has allocated Additional Grants to at least 100 hromadas applying the new criteria and procedures.</p> | <ul style="list-style-type: none"> Accelerated recovery efforts: Additional grants facilitate expedited reconstruction of damaged infrastructure and services, contributing to rapid recovery and restoration of normalcy in affected communities. | December 2024 | 15.00 |
| <p>DLR 3.3. (i) The Cabinet of Ministers has updated the list of eligible hromadas.</p> <p>DLR 3.3. (ii) The Cabinet of Ministers has allocated Additional Grants to at least 100 hromadas.</p> | <ul style="list-style-type: none"> Targeted resource allocation: To be more responsive to the changing needs and circumstances during these circumstances, the new allocation mechanism includes the dynamic list of affected communities approved by the Ministry of Reintegration to allow for timely addition and removal of local government from the list of affected communities based on transparent criteria (defined by the COM resolution #1364). Focused impact on vulnerable areas: Tailored grants address specific challenges faced by communities heavily impacted, promoting | December 2025 | 120.00 |



| Disbursement-linked Results (DLRs) | Expected impact | Timing | Allocation (US\$, millions) |
|---|--|---------------|-----------------------------|
| | inclusive recovery and sustainable development across diverse localities. <ul style="list-style-type: none"> Continuous while reduced support to implementation of the improved institutional mechanism for allocation of the grant will ensure sustainability. | | |
| DLI 4: STS uses compliance risk management system for large taxpayer audits. <u>Baseline:</u> (ii) the outdated administration model leads to high compliance costs for taxpayers and perceived corruption. It undermines tax collection efforts; (ii) fragmented IT systems do not support the use of third-party information for compliance management. | | | |
| DLR 4.1. (i) STS has developed regulations to support the implementation of a pilot project on compliance risk management. DLR 4.1. (ii) The Cabinet of Ministers has approved a Resolution authorizing the pilot project. DLR 4.1. (iii) STS identified high-risk taxpayers for audit. | <ul style="list-style-type: none"> Improved tax compliance: Implementation of the tax compliance risk management approach is expected to enhance the STS's ability to identify and address tax compliance risks more effectively. By focusing resources on high-risk areas and taxpayers, the STS aims to increase tax revenue collection, especially from under-reported and non-compliant sectors of the economy. | March 2025 | 19.25 |
| DLR 4.2. (i) STS has published the 2024 implementation progress report for the Anti-Corruption Program of the State Tax Service for 2023-2025 on the STS website. DLR 4.2. (ii) STS has updated and published the 2025 Action Plan for the implementation of the Anti-Corruption Program of the State Tax Service. | <ul style="list-style-type: none"> Accountability and integrity: Public disclosure of annual results and the updated Anti-Corruption Program Action Plan demonstrates STS's commitment to combating corruption within its ranks. By implementing specific anti-corruption measures and updating action plans, STS aims to strengthen institutional integrity and reduce opportunities for corrupt practices. | March 2025 | 10.00 |
| DLR 4.3. STS has completed installation of an IT system that meets the specifications for processing of accounting data between large taxpayers and STS using the standard audit file (SAF-T UA). | <ul style="list-style-type: none"> Enhanced data processing capabilities: The IT solution for SAF-T UA data is expected to streamline the processing of tax data from large taxpayers, improving the efficiency and accuracy of data management within STS. This will facilitate quicker access to critical tax information. Improved audit effectiveness: Development and enhancement of algorithms/tests for data analysis will strengthen STS's capacity to identify anomalies and potential tax evasion patterns in SAF-T UA data. | January 2026 | 25.00 |
| DLR 4.4. (i) STS has launched a taxpayer survey online based on tax compliance cost survey methodology to gather information on STS performance and integrity issues. DLR 4.4. (ii) STS has made survey findings publicly available. | <ul style="list-style-type: none"> Enhanced transparency and accountability: Public availability of survey findings will promote transparency in STS operations, providing stakeholders with insights into taxpayer perceptions and satisfaction levels. This transparency is crucial for rebuilding public trust in tax administration, which has been undermined by perceived corruption and service quality issues. Insights from the taxpayer survey will guide STS in improving service delivery and operational strategies. | January 2026 | 40.00 |
| DLR 4.5. STS has used data from the compliance risk management system to inform the selection of 60% of the audits of large taxpayers listed in the STS's Register of Large Taxpayers. | <ul style="list-style-type: none"> Simplified audit processes: The use of compliance risk management methodology will streamline audit procedures by providing auditors with structured and comprehensive data sets for analysis. This simplification will lead to more efficient and effective audits, minimizing administrative burdens for both taxpayers and STS staff. | December 2026 | 50.00 |
| Total DLRs | | | 1,499.25 |
| Capitalization of interests – IBRD (on the US\$ 400 million loan) | | | 50.00 |



| Disbursement-linked Results (DLRs) | Expected impact | Timing | Allocation (US\$, millions) |
|------------------------------------|-----------------|--------|-----------------------------|
| | | | Front-end-fee – IDA |
| | | | 0.75 |
| | | | TOTAL |
| | | | 1,550.00 |

33. **DLRs cover disbursement of US\$699.25 million under the PforR, additional DLRs were preliminary identified for disbursements under potential additional financing in the future.** Remaining US\$50 million of the operation financing is reserved for the capitalization of interests. Table A2.5 shows the selection of DLRs for IBRD funding and DLRs which will be funded with expected future contribution of development partners under the financing gap.

Table A2.5. Selection of DLRs for Funding (in millions)

| DLIs/DLRs | DLIs financed by World Bank (US\$) | DLIs financed by future funding (US\$) |
|--|------------------------------------|--|
| DLI 1: Public investment projects are aligned with strategic sustainable development priorities. | 435.00 | 215.00 |
| DLR 1.1. (i) The Cabinet of Ministers has approved the PIM Action Plan that includes requirements for public investments to integrate climate change and energy efficiency considerations. | 55.00 | |
| DLR 1.1. (ii) MoE and MoF have established and appointed core staff members of PIM units. | | |
| DLR 1.2. (i) The Cabinet of Ministers has established the Strategic Investment Council (SIC) as the sole authority for the approval of a single project pipeline of public investment project concepts. | 140.00 | |
| DLR 1.2. (ii) SIC approved a single project pipeline of public investment project concepts for 2025 budget based on prioritization criteria that include the alignment with strategic priorities and climate considerations; and MoF only included projects in the 2025 Budget submission approved by SIC. | | |
| DLR 1.3. (i) The Cabinet of Ministers approved amendments to the Budget Code establishing the Medium-Term Priority Public Investment Plan and a unified definition of public investment and public investment projects. | 35.00 | |
| DLR 1.3. (ii) MoF published information on projects selected for inclusion in the 2025 Budget Submission prior to parliamentary approval. | | |
| DLR 1.4. (i) The Cabinet of Ministers has approved PIM Methodologies for project identification, prioritization, preparation, appraisal, and approval that include gender equality and climate change considerations. | 140.00 | |
| DLR 1.4. (ii) SIC approved a single project pipeline for 2026-2028 based on a prioritized list of projects concepts at the central level and relevant projects at the local level which includes gender and climate change considerations. | | |
| DLR 1.5. (i) The Cabinet of Ministers has approved revised regulations and specifications for the DREAM system that contain the new public investment management procedures and build back better approach, including climate change adaptation and mitigation assessment, and civil society feedback modules. | 65.00 | |
| DLR 1.5. (ii) The Cabinet of Ministers has approved specifications for information exchange between the DREAM system, Prozorro, Treasury, and Budgeting systems and the interoperability requirements to link these systems. | | |
| DLR 1.6. (i) The Cabinet of Ministers has approved a Resolution requiring the application of the PIM Methodology for project monitoring, reporting, and evaluation that include gender equality and climate change considerations. | | 55.00 |
| DLR 1.6. (ii) MoE and MoF trained at least 50 central government PIM specialists in new PIM procedures, including on integrating climate change considerations. | | |
| DLR 1.7. (i) The Cabinet of Ministers has introduced a requirement for all projects included in the State Budget to be registered in the DREAM system. | | 75.00 |



| DLIs/DLRs | DLIs financed by World Bank (US\$) | DLIs financed by future funding (US\$) |
|--|------------------------------------|--|
| DLR 1.7. (ii) MoE, MoF, and MCTD have established daily reconciliation of data from the DREAM system with information from Prozorro, the Treasury, and the Budgeting systems. | | |
| DLR 1.7. (iii) MCTD has operationalized climate change modules in the DREAM system that allow central and local governments to identify and address project-level climate-related physical risks (adaptation) and impacts (GHG emission mitigation). | | |
| DLR 1.8. (i) At least 80 percent of public investment projects approved for implementation are aligned with strategic priorities. | | 85.00 |
| DLR 1.8. (ii) At least 30 investment public investment projects include climate physical risk and impact mitigation measures in their project feasibility studies. | | |
| DLI 2: Local governments publish information on their budgets, debt and service delivery and reconstruction performance. | 185.00 | 350.00 |
| DLR 2.1. (i) The Cabinet of Ministers has approved the State Strategy of Regional Development of Ukraine. | | |
| DLR 2.1. (ii) MoF has approved a revised Budget Methodology for the preparation of local government medium-term budget plans that includes gender information. | 85.00 | |
| DLR 2.2. (i) The Cabinet of Ministers has approved revised procedures that provide for expanded authority of local governments to borrow from financial institutions other than commercial banks. | | |
| DLR 2.2. (ii) MoF has approved a Methodology for Local Government Debt and Guarantee Management and Reporting. | 20.00 | |
| DLR 2.3. MoE has approved methodological recommendations for analyzing the environmental impact of public investment projects at the local level. | 80.00 | |
| DLR 2.4. (i) Of the approved medium-term budget plans, at least 400 hromadas have included gender information and made the medium-term budget plans publicly available. | | 110.00 |
| DLR 2.4. (ii) At least 30 percent of hromadas' investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis. | | |
| DLR 2.5. At least 90 percent of hromadas with debt obligations have reported monthly on their debt and guarantees. | | 75.00 |
| DLR 2.6. MoF has upgraded local finance management information system (LOGICA) to digitally capture and report on medium-term budget plans and budget execution that include gender information. | | 40.00 |
| DLR 2.7. (i) 400 hromadas have included gender information in publicly available budget execution reports. | | 125.00 |
| DLR 2.7. (ii) At least 60 percent of hromadas' investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis. | | |
| DLI 3: Allocations of intergovernmental transfers reflect updated service needs. | 50.00 | 120.00 |
| DLR 3.1. The Cabinet of Ministers has approved criteria and procedures for the allocation of Additional Grants to support the delivery of basic services in hromadas that have been negatively affected. | 35.00 | |
| DLR 3.2. The Cabinet of Ministers has allocated Additional Grants to at least 100 hromadas applying the new criteria and procedures. | 15.00 | |
| DLR 3.3. (i) The Cabinet of Ministers has updated the list of eligible hromadas. | | 120.00 |
| DLR 3.3. (ii) The Cabinet of Ministers has allocated Additional Grants to at least 100 hromadas. | | |
| DLI 4: STS uses compliance risk management system for large taxpayer audits. | 29.25 | 115.00 |
| DLR 4.1. (i) STS has developed regulations to support the implementation of a pilot project on compliance risk management. | | |
| DLR 4.1. (ii) The Cabinet of Ministers has approved a Resolution authorizing the pilot project. | 19.25 | |
| DLR 4.1. (iii) STS identified high-risk taxpayers for audit. | | |
| DLR 4.2. (i) STS has published the 2024 implementation progress report for the Anti-Corruption Program of the State Tax Service for 2023-2025 on the STS website. | 10.00 | |



| DLIs/DLRs | DLIs financed by World Bank (US\$) | DLIs financed by future funding (US\$) |
|---|------------------------------------|--|
| DLR 4.2. (ii) STS has updated and published the 2025 Action Plan for the implementation of the Anti-Corruption Program of the State Tax Service. | | |
| DLR 4.3. STS has completed installation of an IT system that meets the specifications for processing of accounting data between large taxpayers and STS using the standard audit file (SAF-T UA). | | 25.00 |
| DLR 4.4. (i) STS has launched a taxpayer survey online based on tax compliance cost survey methodology to gather information on STS performance and integrity issues. | | 40.00 |
| DLR 4.4. (ii) STS has made survey findings publicly available. | | |
| DLR 4.5. STS has used the data from the compliance risk management system to inform the selection of 60% of the audits of large taxpayers in the STS’s Register of Large Taxpayers. | | 50.00 |
| Total PforR Program Cost | 699.25 | 800 |
| Capitalization of interests – IBRD (on the US\$ 400 million loan) | 50 | |
| Front-end-fee – IDA | 0.75 | |
| TOTAL | 750 | |

F. RESULTS FRAMEWORK AND MONITORING AND EVALUATION CAPACITY

Program Development Objective (PDO)

34. **The Program Development Objective is to establish the institutional foundations for the implementation and financing of climate-smart recovery and reconstruction.** Progress towards this objective will be assessed through four key indicators, each reflecting critical aspects of financial and implementation capabilities:

- Public investment projects are aligned with strategic sustainable development priorities. This indicator assesses the government's ability to prioritize and implement public investment projects in accordance with strategic and climate change objectives.
- Local governments publish information on their budgets, debt and service delivery and reconstruction performance. This indicator assesses the transparency and accountability of budget spending on response and recovery efforts.
- Transfers to local governments are transparent and aligned with their service delivery and reconstruction needs. This indicator assesses the accuracy and effectiveness of distributing intergovernmental transfers to meet service and reconstruction requirements.
- STS uses compliance risk management system for large taxpayer audits. This indicator assesses improvements in the government's tax compliance processes, which are crucial for enhancing financing capabilities for recovery and reconstruction.

Results Areas and Indicators

RA1: Public Investment Management

35. **This result area aims to address the fragmentation in the PIM system which leads to inefficient allocation and application of resources.** Effective public investment management is crucial for ensuring that reconstruction efforts are sustainable, resilient, and aligned with strategic priorities. Key interventions in this area include:

- Developing a comprehensive PIM reform plan: This will outline steps to address fragmentation, enhance coordination, and improve overall management of public investments.
- Clarifying stakeholder roles: Clear definitions of roles and responsibilities will enhance accountability and ensure that all parties are working towards common goals.
- Establishing centralized coordination mechanisms: These will streamline project selection processes, making them more efficient and aligned with national priorities.



- Introducing standardized PIM procedures: Emphasis will be placed on climate risk assessment to ensure that investments are resilient and sustainable.
- Designing and implementing capacity-building programs: These programs will equip stakeholders with the necessary skills and knowledge to effectively manage public investments.
- Developing integrated digital infrastructure: This will connect PIM with Public Financial Management (PFM) systems, facilitating management and decision-making.

Indicators

- PDO Indicator 1: Public investment projects are aligned with strategic sustainable development priorities.
- Enhanced reconstruction capacity through improved project coordination and implementation based on strategic and climate resilience priorities.
- Access to comprehensive, up-to-date information on the investment pipeline, projects, and implementation, enabling informed decision-making.

36. The anticipated outcome is a robust PIM system that generates a pipeline of public investment projects and private investment solutions that align with strategic priorities and integrate climate resilience considerations, leading to sustainable and resilient infrastructure development.

RA2: Local Public Financial Management

37. This result area addresses the inadequate integration of medium-term plans with annual budgets at the local level. Key interventions include:

- Reinstating medium-term budgeting at the local level: This will improve financial planning and stability, allowing local governments to better manage resources over multiple years.
- Enhancing program budgeting: Incorporating gender-disaggregated data and climate considerations will ensure that budgets address the needs of all population segments and address climate risks and policies.
- Developing IT systems for local budget planning: Advanced IT solutions will support accurate and efficient budget preparation and execution.
- Designing capacity development programs: Training for local government officials will focus on effective Public Financial Management (PFM), including gender and climate considerations.

Indicators

- PDO Indicator 2: Local governments publish information on their budgets, debt and service delivery and reconstruction performance.
- Implementation of medium-term budgeting at central and local levels with improved program budgeting.
- Enhanced transparency and alignment of budgets with gender-specific needs.
- Training programs will equip local officials with the necessary skills for effective budget preparation and execution.

38. The outcome will be improved fiscal transparency and budgets aligned with the needs of impacted population groups. This will support service delivery now and in the reconstruction phase and ensure that resources are used effectively and equitably.

RA3: Local Fiscal Governance Reforms

39. This result area addresses the misalignment of resource allocations due to the use of outdated population data in the calculation of fiscal transfers. Effective fiscal governance at the local level is essential for responsive and equitable service delivery. Key intervention includes:

- Introducing new transfer mechanisms: This will ensure fair and efficient resource distribution in areas most impacted.



Indicators

- Intermediate Results Indicator 3: Intergovernmental transfer mechanism which reflects updated service needs is implemented.
- Updated intergovernmental transfer mechanisms reflecting service delivery data.

40. **The outcome will be improved alignment of transfers with local government needs.** This will support immediate service delivery now and in the reconstruction phase and ensure that resources are used effectively and equitably.

RA4: Revenue Administration

41. **This result area aims to address inefficiencies and low compliance in tax administration which hinder effective revenue mobilization and compromise the integrity of the tax system.** Effective revenue administration is crucial for securing the funds necessary for reconstruction and development. Key interventions include:

- Conducting regular taxpayer surveys: Gathering feedback from taxpayers will help identify areas for improvement and build trust in the tax system.
- Implementation of an anti-corruption program: This will bolster integrity and public trust in tax administration, ensuring that tax revenues are managed transparently and effectively.

Indicators

- PDO Indicator 4: STS uses compliance risk management system for large taxpayer audits.
- Improved operational efficiency within the STS, setting the stage for future compliance improvements.
- Enhanced transparency and responsiveness in information exchange with taxpayers.
- Increased taxpayer satisfaction, as measured through regular surveys, providing early indicators of potential compliance enhancement.

42. **The outcome will be improvements in tax administration integrity, laying the groundwork for improved tax compliance in the future.** This will ensure a stable and growing revenue base for funding reconstruction and development efforts.

Monitoring and Evaluation Capacity

43. **The monitoring and evaluation (M&E) framework for the Program is designed to ensure comprehensive tracking of progress and impact across all result areas.** A robust M&E system is crucial for assessing the effectiveness of interventions, ensuring accountability, and facilitating continuous improvement. The framework will involve the following key components:

Data Collection and Analysis

- Regular data collection: Data related to all PDO indicators will be collected systematically to provide an accurate and up-to-date picture of program performance.
- Use of country systems: The Program supports the development of country systems public investment management, fiscal transfers, budgeting, and tax administrations. These systems are used to allocate resources and manage workflows, thereby creating an incentive for compliance and the means to gather information on the achievement of DLIs and DLRs.
- IT systems: The Program supports the development of information systems for public investment management, fiscal transfers, monitoring local government budgets, and tax compliance management. These systems will enable real-time data analysis and reporting.

Capacity Building



- Training programs: Government officials at both central and local levels will receive training to enhance their M&E skills, ensuring that they can effectively track and report on program outcomes.
- Development of guidelines and tools: Standardized M&E practices will be established through comprehensive guidelines and tools, ensuring consistency and reliability in data collection and analysis.

Stakeholder Engagement

- Involvement of local governments and civil society: Engaging a wide range of stakeholders in the M&E process will enhance transparency and accountability, ensuring that diverse perspectives are considered.
- Public dissemination of M&E findings: Regularly sharing findings with the public will foster trust and support for the program, demonstrating a commitment to transparency and accountability.

Feedback Mechanisms

- Establishing feedback loops: Insights from M&E activities will be incorporated into program adjustments and Program implementation plans, ensuring that interventions remain relevant and effective.
- Periodic reviews and evaluations: Regular progress reviews and monitoring of indicators will provide an assessment of program effectiveness, informing strategic decisions and necessary modifications.

G. PROGRAM ECONOMIC JUSTIFICATION

44. **This economic analysis evaluates the expected economic benefits, costs, and economic feasibility of the Program, demonstrating its potential to foster sustainable development and resilience in Ukraine's recovery.** The economic analysis of the Program demonstrates its potential to deliver substantial economic benefits by improving public investment management, enhancing fiscal governance, and increasing the integrity of revenue administration. The expected benefits, including improved efficiency and effectiveness in the allocation and application of public funds, increased tax compliance, promotion of gender equality, and increased climate resilience and reduced climate impacts outweigh the costs associated with implementation. The Program's focus on sustainable and inclusive development will support Ukraine's recovery, fostering resilience and long-term economic growth. By addressing critical challenges in a comprehensive and strategic manner, the Program will lay the foundations for a more resilient, inclusive, and sustainable economic future for Ukraine. The following sections assess economic benefits by results areas. The assessment is qualitative, identifying rather than quantifying the economic benefits. It is not possible to provide a monetary value to Program benefits at this stage. The section concludes with an estimation of Program costs and a Cost-Benefit assessment.

Public Investment Management

45. **Improved efficiency and effectiveness.** This results area will support the establishment of centralized coordination mechanisms for public investment, standardized procedures and methodologies with improved project appraisal and selection processes, and integrated digital solutions. This will streamline investment processes, reduce redundancy, and improve the alignment of projects with national priorities. Improved project appraisal and selection processes will ensure that only viable and strategically important projects receive funding, thereby maximizing the return on public investments. Integrating digital solutions will enhance transparency, enable better monitoring, and ensure more effective management of investment projects. Collectively, these interventions are expected to lead to better alignment of public investments with strategic priorities, improved project quality, and consideration of climate risks, which will enhance the efficiency and effectiveness of public investment. The anticipated outcomes include strengthened inter-institutional coordination and increased capacity to undertake urgent reconstruction efforts.

46. **Enhanced climate resilience.** Systematic integration of climate change considerations in project design, appraisal and prioritization will foster more resilient infrastructure investments. This approach not only mitigates future risks but also ensures that public funds are used in a manner that supports long-term sustainability. Consideration of climate risks in the planning and execution of infrastructure projects will lead to the development of resilient infrastructure reducing potential economic losses and enhancing the overall sustainability of public investments.



Local Public Financial Management

47. **Enhance transparency and alignment of resources with locally identified priorities.** The enhancement of local PFM practices is crucial for improving the efficiency and effectiveness of public service delivery at the local level. This component aims to strengthen fiscal governance capabilities by strengthening medium-term and program budgeting. Improvements in transparency and accountability will mitigate the risk of fund misallocation and wastage, ensuring that public resources are utilized effectively to meet local needs. Capacity-building initiatives under this Results Area will equip local government officials with the skills needed to manage resources efficiently and effectively. These initiatives will include targeted training programs, the implementation of strategic planning processes, and the establishment of comprehensive financial oversight mechanisms. Enhanced local capacity will improve the ability of local governments to execute development projects, maintain financial stability, and respond to emerging needs.

48. **Gender budgeting and climate resilience.** The focus on gender equality in budgeting and resource allocation will ensure that the specific needs of women and other vulnerable groups are addressed, promoting social cohesion, and contributing to more inclusive outcomes. Budgets will include climate indicators to ensure that budgets address climate action and are aligned with climate policies and thereby support sustainable development.

Local Fiscal Governance Reforms

49. **Resource allocation and efficiency.** Local fiscal governance reforms will enhance the financial autonomy and resilience of local governments by refining intergovernmental transfer mechanisms and implementing comprehensive fiscal risk management frameworks. These reforms will deliver a more equitable and efficient distribution of resources based on accurate demographic and economic data, enabling local governments to address their specific needs more effectively. The reforms will provide a more stable and predictable financial base for local development initiatives.

Revenue Administration

50. **Increased tax compliance and revenue.** The fourth result area focuses on improving the integrity and efficiency of revenue administration by supporting National Revenue Strategy (NRS) reforms. Key interventions include enhancing tax compliance risk management systems, establishment of taxpayer feedback mechanisms, implementation of the State Tax Service's Anticorruption Strategy. These reforms are expected to strengthen tax compliance and increase taxpayer trust and so, ultimately, increase revenue generation. By addressing inefficiencies in tax administration and compliance, the Program will enhance the government's ability to collect revenues effectively, providing the necessary financial resources to support reconstruction and development initiatives.

51. **Operational efficiency.** Improved tax administration processes and the consolidation of IT systems will enhance operational efficiency, reducing administrative costs and increasing the overall effectiveness of the revenue system. Enhanced operational efficiency will streamline tax administration processes, reduce the administrative burden on both the government and taxpayers, and increase the overall effectiveness and fairness of the tax system.

Program Incremental Costs

52. **Implementation costs.** The costs associated with implementing the Program include expenditures on developing and integrating digital solutions, capacity building, and institutional strengthening. These costs are necessary to establish the foundational systems and processes required for effective public investment management, fiscal governance, and revenue administration. The development and integration of digital solutions will involve significant upfront investments in technology and infrastructure, but these costs are justified by the long-term benefits of improved efficiency and transparency.

53. **Capacity building and training.** Significant investment in capacity building and training for government officials at both the central and local levels is required. This includes training on new budgeting processes, public investment management practices, and tax administration procedures. Capacity building efforts will ensure that government officials



have the necessary skills and knowledge to effectively implement and manage the proposed reforms, thereby enhancing the overall effectiveness and sustainability of the Program.

54. **Technology and infrastructure.** Upgrading and integrating IT systems for public investment management and revenue administration will incur substantial costs. These investments are crucial for enhancing transparency, accountability, and operational efficiency. The integration of IT systems will enable better data management, improve communication and coordination among different government agencies, and facilitate more effective monitoring and evaluation of public investments and revenue administration processes.

Cost-Benefit Analysis

55. **Return on investment.** The economic benefits of the Program, including improved efficiency in public investment, enhanced fiscal governance, and increased tax compliance, will generate significant long-term economic benefits that outweigh the implementation costs. The return on investment will be realized through more efficient public spending, increased revenue generation, and improved economic resilience, ultimately contributing to sustainable economic growth and development.

56. **Break-even point.** To be cost-effective, the US\$700 million financing would need to yield at least an equivalent amount of efficiency gains in government spending. This break-even point is calculated 1.5 percent as the ratio of the total PforR disbursements (\$700 million) to total estimated government transfers affected by the Program (\$40,000 million over ten years) plus reconstruction spending (\$100,000 million over ten years on the basis of RDNA3) that will utilize institutions, procedures, and additional capacity for PIM. It is highly plausible that the Program will achieve and exceed these break-even efficiency improvements, as outlined in the Economics Benefits subsection.

57. **Long-term sustainability.** The focus on climate-smart solutions and gender equality in public investment and fiscal governance will promote sustainable development. The Program's emphasis on transparency and accountability will also build public trust and confidence in government institutions, fostering a more stable and resilient recovery process. Sustainable development will be supported by the creation of resilient infrastructure, inclusive resource allocation, and transparent and accountable governance practices, ensuring that the benefits of the Program are realized over the long term.

H. EVALUATION OF TECHNICAL RISK

58. **The technical design of the Program presents substantial risks that need to be managed to ensure successful implementation and achievement of the development objective.** These risks arise from the complexity of the reform agenda, the short implementation timeline, the need for significant capacity building, and the ongoing situation in Ukraine.

59. **Compressed implementation timeline.** The Program is designed to be implemented over a compressed timeline of two years, which is significantly shorter than the typical five-year period for similar PforR operations. This accelerated schedule poses a risk of insufficient time to achieve final outcomes, focusing instead on outputs and intermediate outcomes. The urgency to front-load disbursements adds pressure, limiting the flexibility to extend the Program if there are implementation delays. To mitigate this, the Program links Disbursement-Linked Indicators (DLIs) and Disbursement-Linked Results (DLRs) to regular budget routines, providing an effective enforcement mechanism and reducing the need for project-specific reporting arrangements.

60. **Complex reform agenda.** The Program reform agenda is ambitious and multifaceted, requiring the development and rollout of new planning and management systems. These reforms encompass PIM, PFM, local government fiscal governance, and revenue administration. Given the breadth and depth of these reforms, there is a significant risk related to the technical complexity and the need for coherent and coordinated implementation across multiple government levels. The complementary STRONG Project will finance technical assistance to support reforms, contributing to the design of systems and processes.



61. **Limited local capacity.** Local governments (Local governments) in Ukraine, particularly at the regional (1st tier) and subregional (2nd tier) levels, have limited capacity to undertake reconstruction planning, prioritize investment needs, manage budgets, and implement projects. This capacity gap could slow the speed of disbursements and impede the effective use of allocated funds. The Program includes targeted capacity-building initiatives to enhance the skills and capabilities of local government officials. This will involve systematic training programs and the recruitment of additional staff to fill critical gaps, supported by the STRONG Project.

62. **Supervision and implementation in invasion-affected areas.** The current situation presents significant challenges for program supervision and implementation, particularly in affected areas. Security concerns and logistical constraints may limit the ability of Bank staff to conduct on-site supervision, increasing the reliance on local agencies and remote monitoring mechanisms. To address these challenges, the Program will establish a robust monitoring and evaluation framework that includes independent verification of DLI achievements. Additionally, the use of modern IT solutions for project management and data collection will facilitate remote supervision and ensure accountability.

63. **Institutional and sustainability risks.** Institutional capacity for implementation and sustainability remains a high risk due to the impact on government functions and the loss of key personnel. The Ministry of Finance and other implementing agencies have experienced significant strains, further exacerbated by organizational changes and staff shortages. The Program will implement a proactive capacity-building strategy, including the provision of technical assistance and temporary staffing support through the STRONG Project. This will help to bridge capacity gaps and ensure continuity of critical functions during the implementation period.

64. **Mitigation measures.** The SURGE Program incorporates several mitigation measures to address these risks:

- **Technical assistance:** Significant technical assistance will be provided through the STRONG Project to support the implementation of complex reforms and build capacity at the national and local level.
- **Linking DLIs to budget routines:** This approach will ensure enforcement of reforms through regular budget processes, reducing the administrative burden of separate reporting systems.
- **Enhanced monitoring and evaluation:** The use of independent verification agents and modern IT solutions will strengthen the oversight and accountability mechanisms.
- **Capacity building:** Targeted training programs and recruitment of additional staff will enhance the capacity of local governments and implementing agencies.
- **Coordination with all development partners:** The program benefits from support and technical assistance from other development partners, notably the European Commission, IMF, USAID, and United Kingdom FCDO. The Bank will coordinate with development partners to ensure that policy dialogue and technical assistance in support of the reform agenda is aligned, complementary and supports a consistent set of methodologies.



ANNEX 3. SUMMARY FIDUCIARY SYSTEMS ASSESSMENT

A. ASSESSMENT SUMMARY

Reasonable Assurance

1. **The Integrated Fiduciary Systems Assessment (IFSA) for the Supporting Reconstruction through Smart Fiscal Governance (SURGE) program assesses fiduciary risk in key implementing agencies following the Bank Policy and Directive on “Program-for-Results Financing” covering procurement, financial management, governance, and anti-corruption.** The purpose of the IFSA is to ensure program funds are used as intended and to identify enhancements of the fiduciary systems, so that implementing agencies can provide reasonable assurance that funds will be used efficiently, effectively, transparently, and accountably. The IFSA examines the institutional framework for the Program and its fiduciary capacity and performance. The IFSA covers: Financial Management (FM) arrangements including planning, budgeting, accounting, internal controls, funds flow, reporting, and auditing; procurement arrangements including planning, bidding, evaluation, contract award, and administration; and handling risks of fraud and corruption, and compliance with the Bank’s Anti-corruption Guidelines (ACGs).

2. **In accordance with the World Bank’s “Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing,” dated February 1, 2012, and revised July 10, 2015, the MoF will immediately inform the World Bank of any complaints or claims related to fraud and corruption received by or notified to the MoF or the implementing agencies.** Unless otherwise agreed by the World Bank, the MoF will promptly take appropriate and timely actions to investigate such allegations. The MoF will report to the World Bank on the actions taken during these investigations and, upon completion, will share the findings. The MoF will also provide the World Bank with any records, documentation, or information requested in relation to these matters.

Risk Assessment

3. **The Ministry of Finance (MoF) has shown capacity to manage complex projects through the PEACE and “Accelerating Private Investment in Agriculture Program.”** The Ministries of Economy (MoE) and Ministry of Communities and Territories Development (MCTD) also have the systems and capacity to meet Program obligations. Coordination will be detailed in the Program Operational Manual (POM). The IFSA identifies key risks and weaknesses in Ukraine’s fiduciary systems, proposing targeted mitigation measures.

4. **With timely implementation of agreed actions, the fiduciary systems are adequate to assure proper use of Program funds: the residual fiduciary risk for the Program is rated SUBSTANTIAL.** Ukraine’s transparent e-procurement and robust treasury systems provide additional assurance. Any significant issues will prompt additional mitigation measures by implementing agencies.

Key procurement risks and mitigation actions

- Low competition in tenders: Mitigated by proper packaging, reasonable qualifications, and market sounding.
- Non-competitive direct contracting due to martial law: Mitigated by adopting competitive procedures as default and reviewing arrangements post-martial law.
- Risk of debarred firms being contracted: Mitigated by MoF issuing instructions to avoid contracting debarred firms and confirming compliance in progress reports.

Key FM risks and mitigation actions

- Insufficient program funding in the state budget: Mitigated by ensuring long-term government commitment and monitoring budget allocations.
- Complex implementation arrangements: Mitigated by defining responsibilities, coordination mechanisms, and training for financial reporting.



- Limitations in internal audit systems: Mitigated by subjecting program financial statements to external audits.
- Limited capacity of MoF’s Department of International Financial Projects: Mitigated by hiring additional FM staff and continuously assessing workload needs.

Procurement Exclusion

5. **The Program will not finance procurement at the local government level.** The Program excludes certain procurement activities. Specifically, it does not finance any procurement at the local government level. Additionally, any contracts that require approval by the Operational Procurement Review Committee (OPRC) are excluded from the Program and must be financed from other sources. This ensures that the scope of procurable items is limited to goods and consulting services of relatively low value managed by the main implementing agencies at the central level, following the national procurement regulations and using the ProZorro system.

B. SCOPE

6. **The Program will support the implementation of selected components of the Government’s PFM Reform Strategy Action Plan, PIM Reform Roadmap, and National Revenue Strategy.** The Bank will support the implementation of reforms critical for reconstruction and recovery:

- **PFM Action Plan (2024-2028):** Led by MoF, the Plan seeks to restore local governments’ fiscal management capacity through improvements in local medium-term budget planning, program-based budgeting at the local level, and aligning intergovernmental transfers with expenditure assignments.
- **PIM Reform Roadmap (2022-2025):** Led by MoF, the Roadmap establishes the framework for strategic and medium-term budget planning for investments, selection and approval of public investment projects, management of public investments at the local level, and capacity building for public investment management.
- **National Revenue Strategy (2024-2030):** Led by MoF, seeks to tackle inefficiencies in tax administration and compliance by strengthening the audit process, enhancing the exchange of information for tax purposes, improving excise tax administration, consolidating IT systems, and improving STS personnel policy.

7. **The SURGE Program Expenditure Framework (PEP) is US\$ 2,736 million for 2024—2026, as described in Table A3.1 below.** Financing comprises US\$750 million from an IBRD loan and IDA SPUR credit. Government financing amounts to US\$1,237 million. The financing gap amounts to US\$800 million. This is expected to be financed by future donor contributions in the form of guarantees and grants.

Table A3.1: Scope of SURGE Program Expenditure Framework (US\$ million)

| Name of the Program | Coverage | Budget for 2024—2026 |
|---|---------------------------|----------------------|
| Results area 1: Public Investment Management | National and local | 974.61 |
| Results area 2: Local Public Financial Management | National and local | 52.88 |
| Results area 3: Local Fiscal Governance | Local | 1,240.95 |
| Results area 4: Revenue Administration | National and local | 468.35 |
| Total PforR SURGE Program | National and local | 2,736.79 |
| World Bank Financing | National and local | 699.25 |
| Capitalization of interests – IBRD | | 50 |
| Front-end-fee – IDA | | 0.75 |
| Government financing | National and local | 1,237.54 |
| Financing gap | National and local | 800.00 |

8. **The Integrated Fiduciary System Assessment encompasses the SURGE Program implementing agencies, related budget programs, and the financial management, procurement and oversight functions.** The lead implementing agency



for the Program is the Ministry of Finance (MoF). MoF subordinate agencies, State Treasury, and State Tax Service (STS), and the Ministry of Economy (MoE), and the Ministry of Communities and Territories Development (MCTD), with its subordinated Agency for Reconstruction and Infrastructure Development (AR), are implementing partners. Local governments responsible for implementing certain parts of the PEF under the Program. MoF will establish a Program Implementation Unit (PIU). Through the PIU, MoF will perform overall fiduciary functions for the Program, serve as secretariat to the Program Steering Committee, and assist other Program implementing partners. Responsibilities of other Program implementing agencies relate to specific areas of intervention: MoE procurement and Public Investment Management (PIM); MCTD for PIM-related areas; the State Tax Service for revenue mobilization areas; AR for PIM-related areas. Local governments are beneficiaries of basic and additional grants as well as subventions to perform their duties. The relevant budget codes of the expenditure lines covered by the Program and responsibility roles for their implementation are indicated in Table A3.2 below. Additionally, the assessment covered other authorities in charge of overall public financial management, procurement, and related oversight functions, such as the Accounting Chamber of Ukraine (ACU) and Public Procurement Agency (PPA).

Table A3.2: Budget Programs and Implementation Arrangements

| # | Budget program code | Program title | Sub-vention Y/N | Implementing agency | Level of Government | Maximum number of local government entities involved |
|--|---------------------|---|-----------------|---|---------------------|---|
| Results area 1. Public Investment Management | | | | | | |
| 1 | 3501010 | Governance and management in the financial sector | N | Ministry of Finance | Central | None |
| 2 | 3504010 | Governance and management in the treasury services sector | N | State Treasury Service | Central | None |
| 3 | 3511050 | Basic grant | Y | Ministry of Finance | Central, regional | 1,032 local governments, of which: 18 oblasts 241 cities territorial communities. 443 village territorial communities. 330 town territorial communities. |
| Results area 2. Local Public Financial Management | | | | | | |
| 4 | 1201010 | Economic governance and management | N | Ministry of Economy | Central | None |
| 5 | 3101010 | Overall governance and management in the community, territorial and infrastructure development sectors | N | Ministry of Communities and Territories Development | Central | None |
| 6 | 3111010 | Governance and management in the infrastructure rehabilitation and development of Ukraine sectors | N | The State Agency for Infrastructure Restoration and Development | Central | None |
| Results area 3. Local Fiscal Governance | | | | | | |
| 7 | 3121040 | Subvention from the state budget to local budgets to cover expenditures of rayon councils aimed at performing their powers | Y | Ministry of Communities and Territories Development | Central, regional | 121 district councils (rayons) |
| 8 | 3511280 | Additional grant for the execution of the powers of local self-government bodies in territories not under government control, territories where government control was restored, and other territories of Ukraine negatively impacted | Y | Ministry of Finance | Central, regional | 432 territorial communities |
| Results area 4. Revenue Administration | | | | | | |
| 9 | 3507010 | Governance and management in the tax policy sector | N | State Tax Service | Central | None |



9. **Data collection and methodology.** The present IFSA was conducted in May – June 2024 and was based on desk reviews, responses provided by the Program implementing agencies on the FM questionnaire, and online meetings. The desk review covered relevant legislative acts, available sector data, PFM diagnostic analysis²⁶, external audit reports, and budget execution data. Several online working sessions were held with key stakeholders from participating entities to verify or extend the findings from the desk review. The Assessment covered two calendar years, 2022 and 2023. The local governments benefiting from transfers from the central government include around 1,000 local communities under 24 regions (oblasts) under the Program. Since PFM systems in those entities are similar and regulated centrally, a representative sample was selected for assessment (a few local governments of each level benefiting from the largest allocation of basic and additional grants) as indicated in Tables A3.3 and A3.4 below. Given the robust treasury system that consolidates all information on budget execution from all levels of government, the sample selected is sufficient for drawing relevant conclusions about the PFM performance at the local level. The findings of the recent local PEFA assessments conducted for every level of local government based on one region supported the IFSA.

10. **The Program covers budget lines that entail transfers of funds from the MoF to other implementing agencies from the central level and transfers to the local governments.** Transfers to implementing agencies take place in accordance with regular budget financing procedures. Specific procedures are adopted for inter-budgetary transfers from the state budget to local budgets (basic grants and subventions). These are regulated through the resolution of the Cabinet of Ministers of Ukraine No. 1132 from December 15, 2010. The government expenditure program 3121040 “Subvention from the state budget to local budgets to cover expenditures of rayon councils aimed at performing their powers” is administered by the Ministry for Communities, Territories, and Infrastructure Development. Upon approval of the annual budget, subventions are transferred by the Treasury to the accounts of the relevant local budgets opened in the treasury units according to the state budget plan. Each month, on the 15th day, the Treasury informs the MoF and MCTD of the amount of the transferred subvention and cash expenditures. By the 25th day of each month, MCTD submits information about the use of subvention funds to the MoF.

11. **The government expenditure program 3511050 “Basic grants,” administered by the MoF, transfers funds from the state budget to local budgets for horizontal equalization of tax capacity.** The Treasury transfers these grants to local budgets in equal parts every ten days and reports daily to the MoF on amounts transferred to consolidated regional budgets, the city of Kyiv, and other specified local budgets. In 2022, 1,089 local budgets received basic grants, 1,172 in 2023, and 1,032 in 2024. To assess local PFM systems, the Bank team interviewed heads of 8 selected oblasts, which received UAH 13,263,148 thousand out of the UAH 21,117,705 thousand budgeted for 2024.

Table A3.3: The Oblasts Selected under Basic Grant Subprogram 3511050 (thousand UAH)

| Budget code | The name of the local budget of the administrative-territorial unit | Basic grant (3511050) | | |
|-------------|---|-----------------------|---------------------|---------------------|
| | | 2022 | 2023 | 2024 |
| 0500000000 | Consolidated budget of Donetsk oblast | 1,009,331.9 | 1,105,955.3 | 2,742,923.9 |
| 0700000000 | Consolidated budget of Zakarpattia oblast | 1,573,114.7 | 2,088,597.7 | 1,636,011.4 |
| 0800000000 | Consolidated budget of the Zaporizhzhia oblast | 555,156.8 | 1,765,944.6 | 1,563,884.3 |
| 0900000000 | Consolidated budget of Ivano-Frankivsk oblast | 1,330,561.9 | 1,688,383.1 | 1,406,153.0 |
| 1200000000 | Consolidated budget of Luhansk oblast | 853,507.2 | 1,021,509.1 | 1,914,340.7 |
| 2000000000 | Consolidated budget of the Kharkiv oblast | 526,310.0 | 2,185,723.5 | 1,056,812.8 |
| 2100000000 | Consolidated budget of the Kherson oblast | 631,052.8 | 2,196,839.2 | 1,730,313.7 |
| 2400000000 | Consolidated budget of Chernivtsi oblast | 1,128,304.7 | 1,511,734.4 | 1,212,708.6 |
| | Total | 7,607,340 | 13,564,686.9 | 13,263,148.4 |

²⁶ World Bank. 2019 - 2020 PEFA Performance Assessment Reports – Ukraine, Kmelnytskyi Oblast, Iziaslavskiy Rayon, Starosynnyavska Amalgamated Territorial Community, City of Khmelnytskyi; IMF reviews, Open Budget Index, WB Governance Indicators, and IMF reports.



12. **The government expenditure program 3511280 is administered by the MoF.** These additional grants were established in 2022 through the Resolution of the Cabinet of Ministers of Ukraine No. 1477 from December 30, 2022, and aim to equalize the imbalances in local budgets. They are primarily directed to payroll and allowances for employees of public institutions with special working conditions during martial law. Funds are distributed in two stages, with details regarding procedures, conditions, and formulas defined in the Resolution No.1477. The Treasury informs the MoF on the 10th day of each month about the transfers of grants.

13. **The Bank team interviewed the heads of the selected oblasts to confirm the PFM systems in place.** Out of 24 oblasts, six were selected, which are recipients of UAH 17,639,685 thousand under the total allocation of UAH 19,625,778 thousand in 2024.

Table A3.4: The Oblasts Selected under Basic Grant Subprogram 3511280 (thousand UAH)

| Budget code | The name of the local budget of the administrative-territorial unit | Additional grant (3511280) | |
|-------------|---|----------------------------|-------------------|
| | | 2023 | 2024 |
| 0500000000 | Consolidated budget of Donetsk oblast | 3,904,845.8 | 5,983,412.9 |
| 0800000000 | Consolidated budget of the Zaporizhzhia oblast | 1,858,682.6 | 1,999,465.3 |
| 1200000000 | Consolidated budget of Luhansk oblast | 2,044,046.8 | 1,915,678.9 |
| 1400000000 | Consolidated budget of the Mykolayiv oblast | 419,911.5 | 1,302,162.6 |
| 2000000000 | Consolidated budget of the Kharkiv oblast | 1,840,931.0 | 4,043,130.8 |
| 2100000000 | Consolidated budget of the Kherson oblast | 1,825,014.0 | 2,395,835.0 |
| | Total | 11,893,431.7 | 19,625,778 |

14. **The expenditure program 3121040 “Subvention from the state budget to local budgets to cover expenditures of rayon councils aimed at performing their powers” managed by MCTD finances the equal allocation of funds to the beneficiary rayons (per UAH 1,449.3 thousand).** Eight rayons were selected for the review of their PFM systems, which are located under the oblasts stated in Table A3.4.

15. **A Program Operational Manual (POM) will be prepared for the SURGE Program.** POM will include the SURGE Program objectives and targets, detailed description, implementation schedules, budget allocation requirements, procedures for transferring budget funds to the Implementing Institutions, its subordinated agencies, and local governments, and periodic auditing and reporting arrangements. Upon finalization, the respective parts of the POM will be agreed by the Implementing Institutions, and the MoF will provide overall approval.

C. OVERVIEW OF THE PUBLIC FINANCIAL MANAGEMENT CYCLE

Planning and Budgeting

Adequacy of Budgets

16. **A robust budget classification system is in place, enabling all transactions to be tracked throughout budget formulation, execution, and reporting.** Budgetary expenditures are reported by functional, departmental, and economic classifications. Program expenditures are approved annually with the State Budget Law. Program implementing agencies at all levels have systems in place that track information related to the expenditure lines included in the Program.

17. **The Budget Code regulates the budgetary process for all public budget levels, including the budget calendar, which integrates all stages of budget planning, preparation, scrutiny, and approval.** The comprehensive set of instructions prepared by MoF provides spending ceilings and clear guidance to budgetary units. Spending units determine their budget requests based on these ceilings and submit them to MoF. Budget indicators are agreed upon between MoF and the spending units. MoF then finalizes the consolidated budget and submits it to the Cabinet of Ministers of Ukraine (CMU) for approval. Further budget adjustments can only be made after CMU approval.



18. **The present Program will be financed through the regular budgeting process.** All implementing agencies must adhere to the general budget cycle procedures and timelines, ensuring that appropriate funds for the Program are included in their annual work plans and requested and approved in the annual budgets. It is reasonably expected that the required resources will be available in the relevant financial years. The budgetary allocations approved for 2024 for the selected expenditure programs are aligned with the Program financing. While there were some budget cuts in 2022 due to revenue shortages, these cuts were below 10 percent. The expenditures for the Program includes critical transfers that maintain the operation of national and local government entities and as such are not expected to be the target of significant cuts in future.

Table A3.5: Key Steps of the State Budget Process

| Stage 1: State Budget Preparation | |
|--|---|
| Implementing agencies submit budget requests under each program to the MoF | Within a term defined by the MoF (usually June – July of each calendar year) |
| CMU approves a draft State Budget and submits it to the Parliament | September 15 |
| Stage 2: Approval of the State Budget | |
| Parliament approves the state budget | December 1 |
| President signs the Law on the State Budget | Within 15 days after the law being passed by the Parliament |
| Stage 3: State Budget execution | |
| CMU approves the procedures for use of the State Budget funds | Within 30 days after enactment of the Law on the State Budget |
| MoF approves the passports of the budget programs | Within 45 days after enactment of the Law on the State budget Funds become available to implementing agencies as per monthly funds distribution ²⁷ |

Procurement Planning

Procurement Profile of the Program

19. **Procurement under the Program is limited to goods and consulting services of relatively low value, conducted centrally by main implementing agencies according to national Public Procurement Law and using the national e-procurement system, ProZorro.** Each implementing agency is responsible for its own procurement, preparing annual Procurement Plans (PPs) based on allocated budgets. PPs must be published within five business days after endorsement. The Accounting Chamber of Ukraine and the State Audit Service (SAS) monitor procurement activities through periodic audits. Specific procurement profiles for each implementing agency will be determined during Program implementation.

20. **Ukraine's public procurement framework has improved significantly since the EU-Ukraine Association Agreement in 2014, which mandated alignment with EU procurement standards.** The 2016 Strategy for Public Procurement Reform initiated the harmonization of Ukraine’s Public Procurement Law (PPL) with EU legislation, a process further advanced by the 2024-2026 Reform Strategy. The current legal framework includes the Law of Ukraine “On Public Procurement” No. 922-VII, effective from April 2016, along with numerous regulations and orders from the Ministry of Economy. A key regulation is the CMU Decree No. 1178, which introduces procurement flexibilities during martial law, such as shorter bidding times and higher thresholds for mandatory ProZorro use.

21. **The ProZorro system, developed collaboratively by the government, private sector, and civil society, has improved procurement transparency and efficiency.** All central and sub-national budget-funded authorities, public utilities, and state-owned enterprises must use ProZorro for procurement exceeding specific thresholds: UAH 100,000 for

²⁷ Usually, funds become available to the implementing agencies at the end of February – beginning of March, the earliest.



goods and services, UAH 200,000 for maintenance, and UAH 1,500,000 for works. Below these thresholds, publication of award notices is mandatory for procurements above UAH 50,000. Internal regulations can govern procurement below these thresholds, and ProZorro or its e-catalogues are commonly used for small-value procurements. Emergency procurements in critical infrastructure can bypass ProZorro during martial law if properly justified and documented.

22. **The ProZorro system enforces transparency at all procurement stages, with requirements for publishing procurement plans, bid submissions, evaluations, and contract awards.** This centralized monitoring ensures compliance with procurement regulations, bolstered by oversight from the Accounting Chamber of Ukraine and the State Audit Service. These measures collectively uphold the integrity and efficiency of the procurement processes under the Program, ensuring effective use of funds in alignment with national and EU standards.

Budget Execution

Treasury Management and Funds Flow

23. **Program transactions are processed using standardized treasury procedures, with payments released from the Treasury Single Account at the National Bank of Ukraine.** The State Treasury of Ukraine (STU) manages budget execution, operating the Treasury's Single Account and information system. All expenditure transactions are executed through the STU, which performs daily reconciliations.

24. **Implementing agencies and local governments use the "E-KAZNA" treasury system for payments, providing balances, registering liabilities, and facilitating budget fund distribution.** Agencies have separate accounting software that interfaces with E-KAZNA for payment orders.

25. **Agencies and local governments must adhere to budget and monthly limits.** The Treasury authorizes payments within agreed spending plans and ensures commitments are controlled within budget allocations. Protected budget categories, like wages and utilities, are allocated at the beginning of each month, representing about 80 percent of the budget.

26. **The Program will use treasury management and funds flow arrangements.** Loan disbursement is contingent on achieving DLIs, verified by the Independent Verification Agency (IVA). The Bank reviews documentation, confirms DLI achievement, and authorizes disbursement, which is deposited in the Treasury Single Account. Program funds are distributed through the standard government budget process, with prefinancing from domestic sources.

Accounting and Financial Reporting

27. **The accounting and financial reporting systems of implementing agencies are generally adequate, using mostly cash-based national standards with some accrual elements.** Agencies use different IT solutions for accounting and reporting, interacting with the STU through various automated systems. Reports are reconciled with the STU and provide reliable information.

28. **Budget execution reports align with budget coverage and classification, prepared by detailed codes and indicators, and compared with the approved budget.** Monthly and quarterly reports cover revenues, expenditures, budget financing, arrears, and sovereign guarantees. MoF will prepare the Program's annual financial statements, summarizing funds received under each DLI, budget approvals, actual expenditures, and notes on accounting policies. Data on budget execution for grants to local governments will be extracted from Treasury systems.

Procurement Processes and Procedures

29. **During the martial law period, procurement methods include open competitive tendering, e-catalogues, and direct contracting, with the first two being the most frequently used.** Each implementing agency (IA) manages its own procurement independently, supported by dedicated procurement units and authorized professionals. These agencies prepare and endorse annual procurement plans based on pre-approved budgets and publish them on ProZorro, Ukraine's



e-procurement system. ProZorro combines centralized public and decentralized private marketplaces, where bidders must register to participate. Certain high-value tenders must be advertised in English.

30. **Bidders from any country can participate, but those involved in fraudulent or corrupt activities may be disqualified.** Martial law temporarily lifts the requirement to cancel tenders with only one bid. Simplified e-auctions are available for procurements below specific thresholds, while higher-value procurements must follow regular procedures. Implementing agencies prepare bidding documents in accordance with Article 22 of the Public Procurement Law (PPL), including necessary instructions, criteria, and draft contracts. ProZorro ensures compliance with deadlines for bid submission, evaluation, and contract award. Individual consultants are hired through competitive selection processes and must use ProZorro for contracts exceeding UAH 200,000.

Contract Administration

31. **Once awarded, contracts are managed by IA technical units and made publicly available on ProZorro, with payments processed by financial departments based on acceptance documents.** The PPL allows contract amendments, typically for extending completion times, handled according to contract terms. Contracts include dispute resolution procedures, primarily through amicable settlement, with unresolved disputes referred to regular courts. Overall, contract administration practices are robust and satisfactory.

Internal Controls

Internal Controls

32. **Ukraine’s public sector has a robust legal framework for internal controls, established by the Budget Code and Cabinet resolutions, with MoF guidelines requiring controls based on responsibility and sharing of powers, applied by all Program implementing agencies.** Commitment controls ensure budget commitments stay within limits and monthly allocations, using the Treasury IT System. Commitments cannot extend beyond the current budget year without authorization. Payroll controls are adequate, supported by detailed rules and monthly data collection by the MoF.

Internal Audit

33. **The Program will primarily rely on external audit for verification, because s internal audit performance is uneven, and expenditure lines are not regularly included in audit plans.** Some agencies may include expenditure lines upon request, but this is impractical for all local governments.

Table A3.6: Number of Internal Audits Performed

| Budget program | Internal unit | Basis of internal audit | Topic of internal audit | Period covered |
|----------------|------------------------------------|--|---|---------------------------------|
| 3501010 | Internal audit unit of MoF | Operational internal audit plan for 2019 approved on August 27, 2019 | Assessment of the legality and reliability of financial reports, the correctness of accounting and activity of institutions regarding the compliance with the regulations as well as performance of budget program 3501010 | 2019 |
| 3507010 | Internal audit unit of STS | Internal audit plan for 2023 approved on December 23, 2022 | Assessment of the effectiveness of planning and implementation of the budget program 3507010 according to the Programmatic Classification of Local Budget Expenditures and Crediting Governance and management in the Field of Tax Policy in terms of managing budget funds for the implementation of activities for the production, transportation and creation of infrastructure for storing excise tax stamps. | 2022 |
| 3504010 | Internal audit of Treasury Service | Operational internal audit plan for 2022 approved on December 28, 2021 | Use of funds under the budgetary program 3504010 | 2020 – completed period in 2022 |

34. **The harmonization of state internal financial control in Ukraine's public sector is managed by the Ministry of Finance (MoF) through its Department of the State Internal Financial Control Harmonization.** The establishment and operation of internal audits at Implementing Institutions are governed by the CMU Decree #1001 from September 28, 2011. Ukrainian Internal Audit Standards, based on the International Standards for the Professional Practice of Internal



Auditing issued by IIA, are used by central executive authorities. Internal audit units of implementing agencies report directly to the Minister or Head of the entity and operate according to three-year Strategic Plans and Annual Operational Plans using a risk-based approach. These plans and audit activity reports are approved by the entity's management. Management enforces actions on audit recommendations through special orders, with the internal audit unit often monitoring the implementation of these actions. Implementing agencies report annually to the MoF on their plan implementations. The size and staffing of internal audit units vary across Implementing Institutions, with many not fully staffed. For example, the Ministry of Finance has 100 percent occupancy, while the State Treasury Service has 62 percent (see Table A3.7).

Table A3.7: Occupancy in Internal Audit Units

| Implementing agency | Regulated number of staff positions | Number of positions occupied | % occupancy |
|--|-------------------------------------|------------------------------|-------------|
| Ministry of Finance of Ukraine | 9 | 9 | 100 |
| State Treasury Service of Ukraine | 94 | 58 | 62 |
| Ministry of Economy of Ukraine | 15 | 12 | 80 |
| Ministry of Communities and Territories Development of Ukraine | 9 | 8 | 89 |
| The State Agency for Infrastructure Restoration and Development of Ukraine | 6 | 4 | 67 |
| State Tax Service | 33 | 27 | 82 |

Governance and Anticorruption Arrangements

35. **The Antimonopoly Committee of Ukraine (AMCU) handles procurement appeals within the ProZorro e-procurement system.** Complaints can be submitted electronically via ProZorro. The outcome of appeals is publicly accessible. Complaints regarding bidding documents or procurement decisions before the bid submission deadline must be filed with AMCU at least four days prior to the deadline. Complaints about decisions made after bid evaluation must be submitted within ten days after the issue is discovered and before contract signing. AMCU publishes its decisions within three business days of listing the complaint. Appeals can be made in court within 30 days of the AMCU's decision.

36. **From January 2023 to June 2024, the lead IA (MoF) had one complaint, MoE had nine (six from the same firm), and MCTD had none.** AMCU ruled in favor of the complainants in two cases, with the IAs complying by either signing the contract with the previously disqualified bidder or disqualifying the same complainant for a different reason.

37. **Ukraine faces systemic corruption challenges, increasing reconstruction expenses, and reducing transparency due to martial law.** National polls and business surveys in 2023 indicated a high concern for corruption. However, Ukraine has made progress with anti-corruption efforts, including the establishment of the National Anti-Corruption Bureau of Ukraine (NABU) and the Special Anti-Corruption Prosecutor's Office (SAPO), resulting in significant investigations and prosecutions. The e-asset declaration system was restored, although some weaknesses remain. Continued reforms and increased staffing are necessary to maintain progress.

38. **The IMF noted the importance of sustained anti-corruption reforms for public and donor confidence and EU membership goals.** The MoF will inform the Bank of any fraud or corruption allegations in Program progress reports, with potential legal remedies for non-compliance with anti-corruption guidelines.

Auditing

Program Audit

39. **The Accounting Chamber of Ukraine (ACU) will be responsible for the annual audit of the Program financial statements.** ACU has the mandate to audit government financial statements and state budget execution. ACU's audit



methodology is based on ISSAIs and is thereby aligned with international standards. ACU has experience auditing World Bank-financed projects.

40. **Audits must start with the first year of Program implementation, with reports due within nine months of the fiscal year's end.** The ACU will include the Program audit in its annual audit plan, formed at the end of the preceding fiscal year. If the ACU is unavailable, a private audit firm acceptable to the Bank may be considered.

41. **MoF will manually prepare the Program financial statements based on budget execution reports from all implementing agencies, including annual and cumulative expenditure amounts.** Program financial statements will be audited by the Accounting Chamber or an audit firm acceptable to the Bank and the audited Program financial statements will be publicly disclosed within one month of receipt and acceptance by the Bank.

42. **The audit terms of reference (TOR) will be agreed upon between MoF, ACU, and the World Bank to ensure adequacy.** The TORs will require auditing the annual financial statements and reporting on any internal control deficiencies. Auditors will also review procurement procedures and confirm the legitimacy of expenditures, including compliance with World Bank anti-corruption guidelines.

Procurement, Governance, Anti-Corruption, and Financial Management Capacity

Procurement Staff Capacity

43. **The implementing agencies have dedicated procurement units staffed with specialists and authorized persons acting on their behalf in the e-procurement system.** Procurement staff receive periodic training organized by the Ministry of Economy (MoE) on applying the Public Procurement Law (PPL).

Financial Management Capacity

44. **The implementing agencies generally have adequate budget and staff capacities for public financial management functions.** No significant delays or deficiencies have been noted in budget preparation, execution, or reporting. However, the MoF IFI Department may require additional staff to manage the expanded responsibilities of the new Program. Additional FM staff resources should be recruited internally or externally to address potential workload challenges. The parallel STRONG Project provides funding for the contracting of additional staff as necessary.

D. IMPLEMENTATION SUPPORT

45. **During Program implementation, fiduciary support will include reviewing progress, assessing fund appropriation, monitoring financial management and procurement systems, and providing suggestions for improvement.** Key Performance Indicators (KPIs) will be monitored and reported, and the application of PforR Anti-corruption Guidelines will be reviewed. Audit reports will be reviewed, and any findings will be addressed promptly. Changes in fiduciary risks will be monitored, and guidance will be provided to resolve procurement and contract management issues.

Table A3.8: Program Financial Management Performance Indicators

| No | FM Indicator | Measure | Baseline | Target/ Frequency |
|--|--|---|----------|-------------------|
| Planning and Budgeting-Adequacy of budgets | | | | |
| 1 | Aggregate Expenditures – Requested budget vs. Initially approved budget | Variance: Requested budget / vs. Initially approved budget in US\$ and % annual work plan | N/A | 95%/ Annual |
| 2 | Aggregate Expenditures – Final approved budget vs. Final Actual Expenditures | Variance: Final approved budget for the Program / vs. Final actual expenditures in US\$ and % | N/A | 95%/ Annually |
| Budget Execution-Treasury management and funds flow | | | | |



| No | FM Indicator | Measure | Baseline | Target/ Frequency |
|--|---|---|----------|--|
| 3 | Time in advance to plan and commit expenditures | Number of months in advance that implementing agencies can plan and commit expenditures in accordance with the budgeted appropriations and cash releases | N/A | 2 months in advance |
| 4 | Average time for cash to flow | Variance: Planned date vs. Actual date funds is received | N/A | Less than 5 business days |
| Budget Execution-Accounting and financial reporting | | | | |
| 5 | Timeliness of annual budget reports | Frequency and timeliness of the issuance of annual budget reports (actual date of issuance vs. established deadline) | N/A | By March 31 each reporting year |
| Auditing-Program audit | | | | |
| 6 | External audit – Timeliness of submission | Date audited annual financial schedules of the Program submitted to the Bank vs. reporting deadline | N/A | No later than 9 months after the end of each calendar year |
| 7 | External Audit – response rate | Timeliness of management response to findings (were recommendations implemented by due date) Extent of implementation of recommendations (Number of recommendations implemented / Number of recommendations suggested) | N/A | All audit recommendations are implemented by due date indicated in the agreed Action Plan / Annually |



ANNEX 4. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

A. OBJECTIVE AND SCOPE

1. **The Environmental and Social Systems Assessment (ESSA) evaluates the environmental and social management systems relevant to the Ukraine Supporting Reconstruction through Smart Fiscal Governance (SURGE) Program for Results (PforR).** This assessment identifies gaps and opportunities for improvement within these systems to ensure they meet the World Bank's standards and effectively manage environmental and social risks. The scope of the ESSA covers specific programs and activities related to:

- **Public Investment Management:** Examining how environmental and social considerations are integrated into the planning, appraisal, and implementation of public investment projects, especially those aimed at infrastructure and social services.
- **Local Public Financial Management:** Assessing the effectiveness of financial management systems at the local level in incorporating gender-disaggregated data and climate considerations and ensuring inclusive and transparent budget planning and execution.
- **Local Fiscal Governance:** Evaluating the processes for distributing intergovernmental transfers based on updated demographic data, ensuring equity and addressing the needs of vulnerable groups.
- **Revenue Administration:** Reviewing the integrity and compliance of tax administration processes, and how these processes incorporate environmental and social considerations to avoid adverse impacts on different socio-economic groups.

Data Collection and Review

2. **The ESSA involved data collection, review of the current systems and assessment of their effectiveness in managing environmental and social risks.** Key activities included:

- **Desk reviews:** Detailed examination of existing environmental and social policies, regulatory frameworks, and institutional capacities. This included reviewing national laws, regulations, and guidelines relevant to environmental and social management, as well as any relevant international agreements and conventions to which Ukraine is a party.
- **Stakeholder consultations:** Engaging with a broad range of stakeholders, including government agencies, local communities, civil society organizations, and private sector representatives. These consultations were crucial for gathering diverse perspectives on the effectiveness of current environmental and social management practices and identifying areas for improvement. Virtual platforms were utilized to ensure continuous engagement despite security concerns.

Identification of Risks and Impacts

3. **The assessment identified several potential environmental and social risks associated with the SURGE PforR, which are critical to address for the program's success.** The significance of these risks and their potential impacts on program outcomes were carefully evaluated to inform mitigation strategies.

Key environmental risks include:

- **Pollution:** Risks of air, water, and soil pollution due to construction activities and infrastructure projects.
- **Waste management:** Challenges related to the disposal and management of construction and operational waste.
- **Biodiversity impacts:** Potential adverse effects on local ecosystems and biodiversity due to land development and infrastructure projects.

Key social risks include:



- **Land acquisition and resettlement:** Issues related to land acquisition for project implementation, which could lead to displacement and loss of livelihoods for affected communities.
- **Labor and working conditions:** Ensuring fair and safe working conditions for laborers involved in the projects and addressing risks of labor exploitation.
- **Socio-economic inequities:** Risks of exacerbating existing socio-economic disparities if project benefits are not equitably distributed.
- **Social tensions:** Potential for social conflicts arising from inadequate grievance mechanisms and lack of stakeholder engagement.

Assessment of Existing Systems

4. **The existing environmental and social management systems were analyzed to determine their adequacy in managing identified risks by evaluating policy consistency, institutional capacity, and implementation effectiveness.** This involved assessing whether current policies align with national and international standards, examining the capacity of relevant institutions, including the availability of skilled personnel, financial resources, and technical expertise, and reviewing the practical implementation of these policies and regulations on the ground. The assessment covered the robustness of legal frameworks, the capacity of institutions to enforce regulations, and the overall effectiveness of current management practices. Enhanced training and capacity building are necessary to manage the increased risks associated with reconstruction activities.

Gap Analysis

5. **The ESSA conducted a detailed gap analysis to identify discrepancies between current systems and the requirements of the World Bank's PforR Policy (six environmental and social core principles).** This analysis highlighted policy gaps where existing policies do not fully align with World Bank standards, requiring updates or new policies to be developed; capacity gaps due to shortcomings in institutional capacity, such as a lack of trained personnel or insufficient financial resources, hindering effective environmental and social management; and implementation gaps related to practical challenges in policy implementation, such as inadequate monitoring and enforcement, which reduce the effectiveness of existing systems. The identified gaps form the basis for developing action plans to strengthen environmental and social management systems.

B. EXPECTED ENVIRONMENTAL AND SOCIAL EFFECTS

6. **The SURGE PforR is designed to enhance fiscal governance systems.** These systems include public investment management for reconstruction, local government fiscal governance for recovery, and integrity and compliance in revenue administration. While the Program does not directly finance physical infrastructure interventions, it focuses on creating an institutional framework for more comprehensive reconstruction activities. Consequently, the primary environmental and social (E&S) issues associated with the Program are the downstream effects of projects prepared for urgent reconstruction and recovery in 2024-2025.

7. **The Program is expected to yield several positive environmental outcomes.** The Program will promote environmentally responsible decision-making by improving project appraisal methodologies and integrating climate change and sustainability considerations into budget planning. Building the capacity of local governments in these areas will further enhance the environmental sustainability of future reconstruction efforts. These improvements are expected to lead to better management of natural resources, reduced pollution, and overall, more sustainable development practices.

8. **The Program is expected to enhance transparency and accountability within public financial management systems, contributing to more effective governance.** The program supports reforms that aim to reduce corruption and ensure the efficient use of resources. Additionally, the incorporation of gender equality initiatives is expected to empower



women and ensure their participation in decision-making processes. These measures are vital for fostering social inclusion and equity, particularly in recovery and reconstruction settings where rebuilding trust and social cohesion is crucial.

9. **However, the Program also poses substantial environmental and social risks.** The downstream effects of future reconstruction projects include potential environmental risks such as pollution, waste management challenges, and biodiversity impacts arising from construction activities. Social risks involve issues related to land acquisition and resettlement, labor conditions, socio-economic inequities, and potential social tensions due to inadequate grievance mechanisms and war hazards. Effective management of these risks requires robust E&S management systems and proactive measures to mitigate adverse impacts.

10. **To address these risks, the Program includes mitigation measures.** These include project screening criteria to exclude activities with significant environmental impacts, ensuring proper waste management, and safeguarding biodiversity. Social risk mitigation strategies involve incorporating screening criteria to avoid projects with significant resettlement risks, enhancing gender inclusion in municipal budgeting, and strengthening stakeholder and citizen engagement processes. Additionally, the Program aims to establish functional grievance mechanisms and incorporate proper safety measures in line with national legislation and relevant guidance to manage risks associated with social tensions and war hazards.

C. LEGAL AND REGULATORY FRAMEWORK FOR MANAGING ENVIRONMENTAL AND SOCIAL IMPACTS

11. **The Government of Ukraine has established a comprehensive legal framework to address environmental issues and promote the sustainable use of natural resources.** This framework includes national environmental legislation, new laws and regulations, and a series of programs and action plans. Ukraine is also a party to numerous international and regional environmental agreements and conventions. The country's nature protection policies and measures for rational use of natural resources and environmental protection are ongoing. Ukraine has also developed legal and regulatory frameworks covering key social issues such as land acquisition, resettlement, labor and working conditions, and social inclusion and sustainability. The ESSA provides a detailed analysis of these frameworks, focusing on the six core principles of the World Bank's PforR Policy.

12. **Ukraine has aligned its legislation with the EU's Environmental Impact Assessment (EIA) Directive and the Directive on Strategic Environmental Assessment.** This alignment follows the signing of the Association Agreement with the EU, through which Ukraine committed to a wide range of international environmental and sustainable development conventions. The Ukrainian environmental legislation is extensive, comprising over 300 legal acts covering various aspects of environmental protection and natural resource management. However, the legislation is often declarative and lacks essential enforcement mechanisms, largely due to the limited capacity of responsible authorities. Additionally, the coherence among various acts is often insufficient.

13. **Environmental considerations during the construction and operation of civil infrastructure are governed by several laws.** These include the Law of Ukraine on Environmental Protection, On the Protection of Atmospheric Air, On the Protection of Land, and On the Environmental Impact Assessment. Specific standards are set by State Construction Norms and State Sanitary Norms, requiring notifications or permits depending on the construction class and complexity. These standards address risks related to occupational health and safety (OHS), community health and safety, biodiversity impacts, and waste management. Despite this robust legal framework, practical implementation often falls short due to gaps in staffing, knowledge, supervision, and the drive to expedite processes and reduce costs.

14. **Natural habitats and cultural heritage sites are designated and protected under relevant legislation.** Natural habitats are designated as Nature Protection Fund lands. Cultural heritage sites are safeguarded by the Law of Ukraine "On Protection of Cultural Heritage," which requires developers to obtain necessary approvals and permits before undertaking activities that might affect these sites. The law mandates that developers consider restrictions on economic activities in areas with cultural heritage objects, and a Chance Find Procedure is in place to manage unexpected discoveries of cultural artifacts during construction, ensuring that development does not compromise cultural heritage.



15. **Worker and public safety are addressed through Ukrainian labor protection legislation.** This includes the Law of Ukraine “On Labor Protection” and various bylaws. Recent projects, such as the EU-ILO Project, aim to align Ukraine's occupational health and safety (OHS) framework with international standards. Despite these efforts, the high incidence rates of work-related accidents and occupational diseases indicate significant gaps in preventing occupational risks and promoting worker safety. These issues are exacerbated by ongoing military hazards, which have increased the risks of workplace accidents, with a significant portion of fatal injuries at work now attributed to hostilities. Coherence and coordination among various regulatory bodies. Addressing these challenges is crucial for aligning Ukraine's legal framework with international best practices and ensuring effective environmental and social management.

D. INSTITUTIONAL CAPACITY ASSESSMENT

16. **The assessment of institutional capacity focused on key entities such as the Ministry of Finance (MoF), Ministry of Economy (MoE), Ministry of Communities and Territories Development (MCTD), and local governments.** The analysis identified several strengths within these institutions, including established policies and regulations that provide a solid foundation for environmental and social management. These institutions also have a history of engaging with international partners, which has contributed to a certain level of expertise and awareness regarding global standards.

17. **However, the assessment also highlighted significant weaknesses, particularly in enforcement capacity and the availability of specialized environmental and social (E&S) expertise.** Many institutions suffer from a lack of trained personnel, insufficient financial resources, and limited technical expertise needed to effectively implement and enforce E&S policies. These deficiencies are exacerbated by the invasion, which has strained institutional capacities and diverted resources away from environmental and social management.

18. **To address these gaps, the assessment recommends a series of capacity-building measures aimed at enhancing the effectiveness of environmental and social management.** These include training programs to build expertise in E&S issues, securing additional financial resources to support enforcement activities, and fostering greater inter-agency collaboration to streamline responsibilities and improve coordination. By strengthening institutional capacities, the program can ensure more robust and effective management of environmental and social risks.

E. COMPARATIVE ANALYSIS OF BORROWER E&S SYSTEM AND WORLD BANK CORE PRINCIPLES

19. **The ESSA conducted a comparative analysis between Ukraine's existing environmental and social (E&S) management systems and the World Bank's core principles for E&S management.** This analysis revealed several gaps that need to be addressed to ensure alignment with international standards.

20. **One of the primary gaps identified was the need for improved enforcement of E&S legislation.** While Ukraine has a comprehensive legal framework, the enforcement mechanisms are often weak, leading to inconsistencies in application and protection.

21. **Another significant gap is the integration of E&S considerations into project planning and implementation.** The current system often lacks a systematic approach to incorporating E&S assessments in the early stages of project development, which can lead to unforeseen negative impacts during implementation. Enhancing this integration is crucial for ensuring that projects are designed and executed with a clear understanding of their potential environmental and social implications.

22. **The analysis also highlighted the need for enhanced stakeholder engagement processes.** Effective stakeholder engagement is vital for identifying and addressing the concerns of affected communities and ensuring that their voices are heard in the decision-making process. The current mechanisms for stakeholder engagement in Ukraine are often inadequate, lacking the depth and breadth required to capture the full range of stakeholder views. Improving these processes is essential for building trust and ensuring the social sustainability of the program.

F. STAKEHOLDER ENGAGEMENT



23. **The Bank task team conducted a series of online consultation meetings with various stakeholders during June and July 2024 to inform the preparation of the ESSA.** These consultations included discussions with key government institutions such as the Ministry of Finance (MOF), Ministry of Economy (MOE), Ministry of Communities and Territories Development (MCDT), and local governments. Additionally, the team engaged with the civil society organization (CSO) group "RISE Ukraine," which includes members from the CEE Bankwatch Network, WWF Ukraine, and Kyiv National University. Due to security concerns, no site visits were conducted. The feedback from these consultations informed the ESSA, particularly in assessing regulatory frameworks, institutional capacity, and community engagement programs.

24. **Further consultations were undertaken before finalizing the ESSA including formal public consultations with key stakeholders in selected regions in July 2024.** These inclusive consultations aimed to gather additional inputs to refine the ESSA. The discussions covered various topics such as program design, environmental issues, labor and working conditions, community health and safety, inclusion of vulnerable groups, community engagement, and grievance redress mechanisms. The feedback received was incorporated into the final ESSA to ensure it addressed the concerns and suggestions of all stakeholders.

25. **The draft ESSA was translated into local languages and shared with stakeholders for feedback before the public consultation.** The draft was also publicly disclosed in July 2024 to ensure transparency and encourage wider community participation. Following the consultations, the final ESSA report will be disclosed publicly both in-country and on the World Bank's website before the program's board approval, ensuring that all stakeholders have access to the final document and its findings.

G. CONCLUSION AND RECOMMENDATIONS

26. **Based on the assessment, a series of measures and actions are recommended to address the identified gaps between Government environmental and social (E&S) management systems and the core principles of the World Bank PforR Policy.** These recommendations are designed to ensure the proposed program is managed consistently with the World Bank core principles. Recommendations include integrating specific measures into excluded activities, relevant Disbursement-Linked Indicators (DLIs) and verification protocols, and the Program Action Plans (PAPs). These measures will also be embedded in the Program Operational Manual (POM) for operationalization and will be continuously monitored and adjusted throughout the program's life.

27. **The Program will exclude activities that do not meet the World Bank's Policy and the ESSA Guidance on eligibility for PforR financing.** Specifically, the Program will not support investments with potentially significant environmental and social risks and impacts. Activities excluded from financing include large-scale construction and rehabilitation work, large-scale land acquisition and resettlement, significant conversion or degradation of critical natural habitats or cultural heritage, and activities for military purposes. Additionally, the Program will exclude activities involving significant pollution, unsafe working conditions, forced or child labor, and adverse impacts on Indigenous Peoples' land and cultural heritage. An exclusion list detailing these activities will be included in the POM to ensure compliance.

28. **The DLIs and verification protocols under the proposed Program include key items relevant to E&S risk management, particularly focusing on climate resilience and gender inclusion in fiscal governance.** These elements are crucial for enhancing the program's effectiveness in managing E&S risks. The effectiveness of these DLIs and protocols will be monitored and supported through the implementation of the relevant PAP, which includes a comprehensive capacity-building program, as well as robust monitoring and reporting mechanisms. These efforts will be further bolstered by the STRONG IPF TA support, ensuring continuous improvement in E&S risk management throughout the program's duration.

29. **Based on the ESSA, the Bank developed a set of actions presented in the Program Action Plan (PAP).** These actions aim to strengthen institutional capacity for environmental and social management, ensure inclusive and transparent program implementation, and mitigate potential risks associated with the SURGE PforR.



ANNEX 5. PROGRAM ACTION PLAN

| Action Description | Source | DLI# | Responsibility | Timing | | Completion Measurement |
|---|----------------------------------|------|---|----------|---|--|
| Enhance climate change expertise for public investment management in the Ministry of Economy and Ministry of Finance. | Technical | NA | Ministry of Finance; Ministry of Economy | Due Date | 31-Dec-2025 | The number of staff hired or trained is recorded and verified through HR documentation. |
| Prepare and implement E&S guidelines per WB and EU standards in PIM methodologies: i) WB PforR E&S Core Principles, WBG EHSs, EU standards; (ii) Emergency Preparedness and Response Plan (EPRP), and (iii) GBV and SEA/SH risk mitigation. | Environmental and Social Systems | NA | Ministry of Economy | Other | Adoption as part of POM; implementation and training throughout the Program's life. | Roll-out of the E&S guidelines and training programs. |
| Establish E&S staffing arrangements for the Program. | Environmental and Social Systems | NA | MoF, MoE, MCTD, and local governments | Other | Before the start of relevant Program activities. | Engagement of qualified Environmental and Social Specialist(s) in the PIU in MoF, MoE, and MCTD; and assignment of E&S focal points in relevant local governments. |



| | | | | | | |
|--|----------------------------------|----|--|-----------|---|---|
| Prepare and implement Program Operational Manual (POM) with comprehensive E&S Exclusion List. | Environmental and Social Systems | NA | MoF, local governments | Other | POM completion is part of the dated Covenants (defined in the financing agreement). | POM completed and disseminated to stakeholders. E&S guidelines are operationalized for all Program activities. The POM will be adopted within one month from effectiveness. |
| Conduct semi-annual E&S reporting and incident reporting. | Environmental and Social Systems | NA | PIU, MoF, MoE, MCTD, local governments | Recurrent | Semi-Annually | Submit completed reports with recommendations on key E&S issues. |
| Establish functional Grievance Mechanism (GM). | Environmental and Social Systems | NA | MoF, local governments | Other | Before the start of relevant Program activities. | Establish functional grievance mechanism(s) and ensure grievance cases are reported regularly. |
| Ensure adequate human resources are dedicated to financial management of the Program at the MoF. | Fiduciary Systems | NA | MoF | Recurrent | Yearly | Annual staff workload assessments and adjustments will be documented in yearly reports submitted to the World Bank. |
| Use competitive procedures as the default for all Program procurement, maintaining the same proportion of competitive versus non-competitive | Fiduciary Systems | NA | MoF | Recurrent | Continuous | Documented evidence of the use of procurement procedures by the method under the Program. |



| | | | | | | |
|---|----------------------------------|----|---------------------|-----------|---|---|
| methods (by quantity and value) as in 2023-2024 during martial law. | | | | | | |
| Reduce low competition in tenders through proper procurement packaging coupled with reasonable qualification requirements provided in the bidding documents and market sounding. | Fiduciary Systems | NA | MoF, MoE, MCTD | Recurrent | Continuous | Annual procurement plans with detailed procurement packaging and qualification requirements, published on ProZorro within the stipulated timeframe. |
| Involve vulnerable groups (female stakeholders, representatives of persons with disabilities, remote areas) in the Program design and implementation (consultations, monitoring and grievance redress). | Environmental and Social Systems | NA | PIU | Other | Adoption as part of POM and implementation throughout the Program's life. | An inclusive community engagement program is operationalized. |
| Provide quarterly reports on investigations of fraud and corruption under the Program, based | Other | NA | Ministry of Finance | Recurrent | Quarterly | Receipt of quarterly reports on investigations of fraud and corruption under the Program. |



| | | | | | | |
|---|-------------------|----|---------------------------|-----------|------------|--|
| on information received by or notified to the Government or the implementing agencies. | | | | | | |
| Disseminate Bank’s anti-corruption guidelines together with updated lists of the debarred and temporarily suspended firms and individuals among implementing institutions. | Other | NA | Ministry of Finance | Recurrent | Continuous | List of institutions receiving information. |
| Issue formal instructions to the implementing partners to ensure that no contract is awarded to a firm or individual who is on the World Bank’s debarment or suspension list. | Other | NA | Ministry of Finance | Recurrent | Continuous | Regular Progress Reports will contain confirmations that no such debarred or suspended firms have been contracted under the Program. |
| Provide annual confirmation that the allocation and distribution of the basic grants, subventions and additional | Fiduciary Systems | NA | Ministry of Finance, MCTD | Recurrent | Yearly | Receipt of confirmation on compliance with the budget rules for transfers to local budgets covered by the Program. |



| | | | | | | |
|--|--|--|--|--|--|--|
| grants to local budgets have followed the prescribed budget rules. | | | | | | |
|--|--|--|--|--|--|--|



ANNEX 6. IMPLEMENTATION SUPPORT PLAN

1. **The Government of Ukraine is responsible for the program’s overall implementation.** The Implementation Support Plan reflects the nature of the reform activities. It considers the risks to the PDO, the extraordinary challenges faced by the Government, and the FCV context. The plan will be regularly reviewed and revised as necessary.
2. **The Bank project team will provide implementation support throughout the project's lifetime.** Implementation support will likely be more intense during the first 12 months after project approval. Implementation support will be provided in the following areas listed below.
3. **The Bank project team will closely review implementation progress toward program results, which are a requirement for DLI disbursements.** The Bank team will carry out monthly virtual and quarterly in-person missions, the security situation permitting. The Bank project team will support the completion of a Mid-Term Review (MTR) one year into implementation to assess progress and challenges. An Independent Verification Agent will be engaged to carry out monitoring, oversight, and reporting. The Bank will work closely with the First Deputy Minister of Finance in their role as the Project Coordinator.
4. **The Bank project team will facilitate technical assistance to achieve program results.** It will provide technical support to the MoF, MoE, and MCTD in order to build institutional capacity for improved PIM, PFM, and tax administration. The Bank team will, *inter alia*, support the client in: integrating climate and gender aspects into planning and public investment systems; the development and implementation of local government strategic planning functions; the integration of IT solutions (PIM functions across DREAM, Prozorro, and the Treasury system); and the establishment and capacity building for the Project Preparation Facility, which will develop higher-risk projects.
5. **The Bank project team will provide guidance on fiduciary and E&S aspects, continuously assess compliance with legal agreements, and monitor changes in risks to the program.** The Bank project team will review project IFRs and audit reports and follow up on issues raised. It will also facilitate training on procurement processes that are compliant with applicable procurement regulations, anticorruption guidelines, and the POM. It will support control system assessments.
6. **The following implementation support plan estimates skill, timing, and resource requirements.** The skill requirements may be subject to change over time.

Table A6.1: Main Focus of Implementation Support

| Focus | Skills Needed | Staff Weeks |
|--|--|-------------|
| First 12 months | | |
| Development of the PIM regulatory framework | PIM | 8 |
| Establishing of PIM institutions | Governance, public administration, PFM | 8 |
| Building capacity for territorial development planning | Urban planning | 6 |
| Implementation of the National Revenue strategy – compliance risk management and institutionalizing cost of tax compliance survey | Tax administration, taxpayer surveys | 2 |
| Updating environmental and social safeguards in national PIM | Environmental and social safeguards | 3 |
| Assistance in developing requirements for the upgrade of IT system DREAM, and interoperability between DREAM and other PFM systems | Governance Specialist | 7 |
| Integrating climate considerations into PIM | PFM and climate change | 6 |
| Integrating gender consideration into local budgeting | Gender budgeting | 2 |
| 12-24 Months | | |



| Focus | Skills Needed | Staff Weeks |
|--|--|-------------|
| Implementation of new PIM processes | PIM | 16 |
| Integration of climate considerations into local budgeting | Climate change, PFM | 4 |
| ESF oversight | Social and environmental safeguards | 4 |
| Procurement oversight | Procurement | 2 |
| Implementation of compliance risk management pilot by the STS | Tax administration | 2 |
| IT implementation for DREAM | IT, PFM | 6 |
| Implementation of a new approach to territorial development planning | Urban development | 2 |
| Additional financing to close the financing gap | Project management, PIM, tax administration, legal, ESF, fiduciary | 4 |

Table A6.2: Task Team Skills Mix Requirements for Implementation Support

| SKILLS NEEDED | Number of Staff Weeks | Number of Trips | Comments |
|-------------------------------|-----------------------|-----------------|---------------|
| Task Team Leaders | 32 | 8 | N/A |
| FM Specialist | 8 | 0 | Country-based |
| Social Development Specialist | 8 | 0 | Country-based |
| Procurement | 4 | 0 | Country-based |
| Environmental Specialist | 4 | 0 | Country-based |
| Governance Specialists | 24 | 8 | N/A |
| Urban Specialist | 12 | 8 | N/A |
| Gender | 4 | 2 | N/A |
| Legal | 2 | 0 | N/A |

Table A6.3: Role of Development Partners in Program Implementation

| NAME | INSTITUTION/COUNTRY | ROLE |
|---------------------|---------------------|--|
| European Commission | EU | Support to Ukraine in implementation of Pillar 2 of Ukraine Facility, finding projects through Single Pipeline; support to Ministry of Communities and Territories Development in building implementation capacity |
| IMF | | Technical Assistance in integrating PIM and MTEF, and fiscal risk assessment |
| USAID | USA | Technical assistance support to local governments in PIM reforms, support to the Accounting Chamber of Ukraine |
| UK FCDO | UK | Technical assistance to support PIM reforms |



ANNEX 7. CLIMATE ANNEX

| DLIs/DLRs | Funding allocation under existing Funding | Contribution to Climate Change Adaptation | Contribution to Climate Change Mitigations |
|--|---|---|--|
| DLI 1: Public investment projects are aligned with strategic sustainable development priorities. | | | |
| DLR 1.1. (i) The Cabinet of Ministers has approved the PIM Action Plan that includes requirements for public investments to integrate climate change and energy efficiency considerations. | 37.50 | <ul style="list-style-type: none"> - Integrates climate resilience and adaptation measures in public investment projects, ensuring that infrastructure is designed to withstand extreme weather events and climate-related risks. - Supports the development of adaptive infrastructure, such as flood defenses, drought-resistant water systems, and other climate-resilient projects. | <ul style="list-style-type: none"> - Prioritizes energy-efficient and low-carbon projects, reducing GHG emissions across sectors. - Mandates compliance with energy efficiency standards, contributing to lower carbon footprints in public infrastructure. |
| DLR 1.2. (ii) SIC approved a single project pipeline of project concepts for 2025 budget based on prioritization criteria that include the alignment with strategic priorities and climate considerations; and MoF only included projects in the 2025 Budget submission approved by SIC. | 111.00 | <ul style="list-style-type: none"> - Ensures projects with high adaptation potential, such as those improving water management, are prioritized in funding, making infrastructure more climate-resilient. - Includes screening for climate risks in project selection, focusing on projects that reduce climate vulnerabilities. | <ul style="list-style-type: none"> - Encourages investment in projects that adopt renewable energy, sustainable transportation, and energy efficiency technologies, contributing to long-term reductions in GHG emissions. |
| DLR 1.3. (i) The Cabinet of Ministers approved amendments to the Budget Code establishing the Medium-Term Priority Public Investment Plan and a unified definition of public investment and public investment projects. | 17.50 | <ul style="list-style-type: none"> - Promotes the adaptation of infrastructure to anticipated climate changes by establishing a consistent approach for incorporating climate resilience across projects. - Strengthens budget alignment with climate adaptation goals, ensuring that public spending supports climate resilient development. | <ul style="list-style-type: none"> - Promotes systematic GHG reduction through planning frameworks that incorporate mitigation strategies in medium-term investments. - Facilitates the inclusion of renewable energy and low-carbon projects in public investment plans. |
| <p>DLR 1.4. (i) The Cabinet of Ministers has approved PIM Methodologies for project identification, prioritization, preparation, appraisal, and approval that include gender equality and climate change considerations.</p> <p>DLR 1.4. (ii) SIC approved a single project pipeline for 2026-2028 based on a prioritized list of projects concepts at the central level and relevant projects at the local level which includes gender and climate change considerations.</p> | 140.00 | <ul style="list-style-type: none"> - Embeds climate adaptation criteria into the entire investment process, ensuring projects include measures to address vulnerabilities and reduce climate risks. - Improves adaptive capacity by promoting projects that include nature-based solutions for climate-resilient infrastructure. - Supports local and regional projects that enhance community resilience to climate impacts, including projects designed to mitigate flooding, drought, and other extreme weather events. - Ensures the inclusion of climate adaptation measures in local development plans. | <ul style="list-style-type: none"> - Focuses on projects that enhance energy efficiency and reduce GHG emissions, integrating low-carbon technologies into project design. - Mandates the inclusion of GHG reduction measures in project appraisals. - Aligns public investments with national (e.g. NDC) and international climate goals, such as the Paris Agreement, by prioritizing low-emission projects. - Incorporates projects focused on renewable energy and sustainable urban planning. |
| DLR 1.5. (i) The Cabinet of Ministers has approved revised regulations and specifications for the DREAM system that contain the new public investment management procedures and build | 32.5 | <ul style="list-style-type: none"> - Enhances the capacity to evaluate and integrate climate adaptation measures in project planning, | <ul style="list-style-type: none"> - Facilitates monitoring and tracking of GHG emissions through the DREAM system, supporting better |



| DLIs/DLRs | Funding allocation under existing Funding | Contribution to Climate Change Adaptation | Contribution to Climate Change Mitigations |
|--|---|--|--|
| back better approach, including climate change adaptation and mitigation assessment, and civil society feedback modules. | | including the use of resilience standards. - Incorporates civil society feedback to strengthen local adaptation efforts. | decision-making in support of low-GHG emission projects. - Promotes the adoption of green building standards in reconstruction projects. |
| <p>DLR 1.6. (i) The Cabinet of Ministers has approved a Resolution requiring the application of the PIM Methodology for project monitoring, reporting, and evaluation that include gender equality and climate change considerations.</p> <p>DLR 1.6. (ii) The MoE and MoF trained at least 50 central government PIM specialists in new PIM procedures, including on integrating climate change considerations.</p> | | <ul style="list-style-type: none"> - Supports continuous improvement in adaptation practices through systematic monitoring of climate resilience measures in public investments. - Incorporates climate risk assessments into ongoing project evaluations. - Builds institutional knowledge and skills for implementing climate adaptation measures across public projects. - Increases awareness of climate risks and adaptation solutions among government staff. | <ul style="list-style-type: none"> - Promotes ongoing tracking of GHG emissions and energy use in public projects, enabling adjustments to enhance mitigation outcomes. - Facilitates learning from best practices in GHG mitigation for future projects. - Trains specialists on incorporating GHG mitigation strategies into project planning, enabling better implementation of low-emission technologies. - Promotes knowledge-sharing on best practices in sustainable development. |
| DLR 1.7. (iii) The MCTD has operationalized climate change modules in the DREAM system that allow central and local governments to identify and address project-level climate-related physical risks (adaptation) and impacts (GHG emission mitigation). | | <ul style="list-style-type: none"> - Supports local governments in assessing and addressing physical climate risks in their projects, enhancing resilience to extreme weather and climate variability. - Provides tools for identifying vulnerabilities and implementing adaptive measures in infrastructure projects. | <ul style="list-style-type: none"> - Assists governments in evaluating the GHG impact of projects and integrating emission reduction strategies. - Encourages the use of low-carbon materials and techniques in public construction projects. |
| <p>DLR 1.8. (i) At least 80 percent of public investment projects approved for implementation are aligned with strategic priorities.</p> <p>DLR 1.8. (ii) At least 30 investment public investment projects include climate physical risk and impact mitigation measures in their project feasibility studies.</p> | | <ul style="list-style-type: none"> - Ensures that the majority of investments support resilience-building measures, such as climate-proofing infrastructure and integrating adaptive features. - Aligns project selection with climate resilience criteria, addressing local adaptation needs. - Improves the resilience of public infrastructure by including climate adaptation measures in feasibility studies, ensuring readiness to cope with climate impacts. - Identifies projects that could benefit from nature-based solutions for climate adaptation. | <ul style="list-style-type: none"> - Promotes the adoption of energy-efficient designs and renewable energy projects, contributing to reduced carbon emissions. - Aligns investment decisions with low-carbon development pathways. - Demonstrates commitment to GHG mitigation by integrating emission reduction measures into the feasibility and design phases of public investment projects. |
| DLI 2: Local governments publish information on their budgets, debt and service delivery and reconstruction performance. | | | |
| DLR 2.3. The MoE has approved methodological recommendations for analyzing the environmental impact of public investment projects at the local level. | 80.00 | <ul style="list-style-type: none"> - Provides local governments with guidance on evaluating and managing climate change impacts and risks. - Ensures that projects account for local climate risks, such as flooding, drought, and extreme weather. | <ul style="list-style-type: none"> - Encourages the integration of GHG mitigation measures into local projects by providing impact assessment methodologies. - Supports the reduction of emissions from local investments through standardized guidelines. |



| DLIs/DLRs | Funding allocation under existing Funding | Contribution to Climate Change Adaptation | Contribution to Climate Change Mitigations |
|---|---|---|--|
| DLR 2.4. (ii) At least 30 percent of hromadas' investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis. | | <ul style="list-style-type: none">- Ensures that local projects incorporate adaptation measures by requiring climate change impact assessments.- Improves resilience to climate risks by identifying necessary adaptations in project proposals. | <ul style="list-style-type: none">- Facilitates the identification and integration of GHG mitigation strategies into local projects, promoting sustainable development practices.- Encourages the adoption of low-emission technologies at the local level. |
| DLR 2.7. (ii) At least 60 percent of hromadas' investment project proposals submitted in the DREAM IT system for PIM have included environmental impact analysis. | | <ul style="list-style-type: none">- Expands the incorporation of adaptation strategies across a broader range of local projects, increasing overall community resilience to climate change.- Ensures that adaptation needs are systematically addressed in local development planning. | <ul style="list-style-type: none">- Strengthens GHG reduction efforts by requiring a greater proportion of projects to undergo environmental impact assessments, leading to more effective mitigation measures.- Promotes broader application of sustainable practices. |