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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 31-Jul-2024 | Report No: PIDPA00085

BASIC INFORMATION

A. Basic Program Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Ukraine	EUROPE AND CENTRAL ASIA	P504773	Supporting Reconstruction through Smart Fiscal Governance (SURGE)
Financing Instrument	**Estimated Appraisal Date**	**Estimated Approval Date**	**Practice Area (Lead)**
Program-for-Results Financing (PforR)	22-Aug-2024	30-Sept-2024	Governance
Borrower(s)	**Implementing Agency**		
Ukraine	Ministry of Finance		

Proposed Program Development Objective(s)

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

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	**2,689.23**
Total Program Cost	2,689.13
Other Costs (Front-end fee,IBRD)	0.10
Total Financing	**1,889.23**
Financing Gap	**800.00**

FINANCING

Total World Bank Group Financing	**700.00**

World Bank Lending	700.00
Total Government Contribution	**1,189.23**

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

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 10,000 civilians, including more than 560 children, have been killed, and over 18,500 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, and over 8.1 million are displaced abroad.[1] 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.** GDP fell by over 29 percent in 2022, with a modest recovery of 4.8 percent in 2023, supported by public consumption and the expansion of firms supporting the defense sector.[2] The recent Rapid Damage and Needs Assessment (RDNA3)[3] 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 occupied territories, 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

[1] https://dtm.iom.int/reports/ukraine-conditions-return-assessment-factsheet-round-4-july-august-2023?close=true
[2] *https://www.worldbank.org/en/country/ukraine/overview*
[3] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099021324115085807/p1801741bea12c012189ca16d95d8c2556a

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 functions[4]. 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 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 2030[5] 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.[6]

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

[4] 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
[5] https://www.kmu.gov.ua/npas/pro-shvalennya-strategiyi-ekologichno-a1363r
[6] *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

domestic resources and external financing are allocated to priority areas and managed efficiently. Subnational governments (SNG) 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.[7] 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,[8] 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, 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)[9] 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.

Subnational 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. SNGs 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

[7] Ministry of Finance data.
[8] http://documents.worldbank.org/curated/en/099220001172358412/P1724410d76e3f0940a48904740dc8b0421
[9] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099021324115085807/p1801741bea12c012189ca16d95d8c2556a

disconnect between strategic plans and budgets, with allocations failing to fully support outlined priorities. Medium-term budgeting was suspended at the start of Russia's invasion. 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 understanding[10]. Implementation of gender budgeting stopped at the start of the invasion. 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. SNG reporting of budget, budget execution, and procurement information varies considerably. Civil society organizations (CSOs) note that few SNGs provide information in machine-readable formats. CSOs are particularly concerned that SNGs 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 SNG 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.

Subnational Fiscal Governance

16. **SNGs 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. **SNGs 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

[10] https://www.sida.se/en/publications/evaluation-of-the-gender-budgeting-in-ukraine-project-2013-2020

populations; emergency services by coordinating emergency response services, including fire departments, ambulance services, and disaster management. SNGs also manage local administration services such as civil, business and property registries and permits and licenses for (re)construction and businesses. Reconstruction needs for SNG owned assets and services vary from substantial to critical in territories affected by the invasion.

18. **SNGs are heavily dependent on a system of shared taxes and transfers from the National Government, which has been disrupted by the invasion.** 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 SNG 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. Before the invasion, SNG revenues were aligned with total local budget expenditures, with most of the funds used to cover recurrent expenditures. While the share of the local budgets in the general government budget exceeded 40 percent, SNG's accounted for less than 20 percent of public sector investment. Russia's invasion of Ukraine has led to the control and subsequent loss of territories, disrupting the fiscal capacity of local governments. The RDNA3 estimated SNG revenue losses at US$3.2 billion.[11] The destruction of infrastructure and the displacement of populations have further strained the fiscal resources of affected SNGs.

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 after the invasion. 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.[12] 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. **Perceived corruption and the poor quality of taxpayer services undermine tax collection efforts.** 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. Perceived corruption in tax administration undermines tax morale and creates opportunities for tax avoidance. 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.

[11] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099021324115085807/p1801741bea12c012189ca16d95d8c2556a
[12] World Bank, IOTA information and Bank staff calculations

PforR Program Scope

21. **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.** 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.

22. **The SURGE PforR Program will be implemented over 30 months at an estimated total cost of US$2,689.23 million, with US$700 million funded by IBRD loans and IDA credit, a US$800 financing gap, with Government financing of US$1,189.23 million**. IBRD financing will include US$400 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[13] and US$300 million funded by the Special Program for Ukraine and Moldova Recovery (SPUR)[14] of the International Development Association (IDA) Crisis Facility on regular IBRD terms. An advance of 5 percent of US$35 million will 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 or US$210 million. 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.

23. **The Program Expenditure Framework (PEF) comprises budgeted expenditures supporting public investment management, subnational PFM and fiscal governance, and revenue administration.** The PEF is sustainable, aligned with the IMF program, and included in the 2024 budget. The PEF includes the partial wage bill for the MoF, MoE, MoI, 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 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 HEAL Project (P180245), or the upcoming LEARN (P504171), and HEROES (P506083) projects.

[13] This operation will use add-up capitalization to lower Ukraine's debt service burden through March 31, 2027. 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 Project (interest accruing and fees due under the terms of the loans) supported under the Japan's credit enhancement by letter on October 27, 2023. As such, the capitalized interest and charges will be paid out of the proceeds of the IBRD 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.

[14] 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.

24. **The DLRs selected for funding under the SURGE PforR, supported by the available US$700 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 subnational fiscal governance, enhancing local budget management and transparency. DLR 3.1 to 3.3 focus on allocating grants for climate-resilient recovery, and DLR 4.1 to 4.3 enhance tax administration efficiency and integrity, critical for sustainable fiscal management. These measures collectively build robust institutional foundations for effective and resilient reconstruction efforts.

25. **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.

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

26. **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**: The STS has compliance risk management in place for tax audits.
  This indicator measures improvements in the government's tax compliance processes, which will improve revenue mobilization for recovery and reconstruction.

D. Environmental and Social Effects

27. **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.

28. **Under Result Area 1, a dedicated Project Investment Management unit will be established at the Ministry of Finance by August 2024.** PIM specialists in all SNGs 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.

29. **Under Result Area 2, the Program will enhance the capacity of SNGs 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.

30. **Additional transfers will be provided to invasion-affected territories under Result Area 3**. These areas will manage risks associated with unexploded ordnances (UXOs) and explosive remnants of war (EWRs) 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 subnational level.

31. **Improvements in revenue administration under Result Area 4 will focus on enhancing the integrity and compliance of revenue collection processes.** The National Revenue Strategy foresees the implementation of citizen engagement and information disclosure components by January 2025. 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.

32. **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 SNG 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.

33. **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.

E. Financing

Program Financing

Source	Amount (US$, Millions)	% of Total
International Bank for Reconstruction and Development (IBRD)	**400.00**	**21.17%**
Counterpart Funding	**1,189.23**	**62.95%**
National Government	1,189.23	62.95%
International Development Association (IDA)	**300.00**	**15.88%**
IDA Credit	300.00	15.88%
Total Program Financing	**1,889.23**	

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