



Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 08/06/2024 | Report No: ESRSA03626



I. BASIC INFORMATION

A. Basic Operation Data

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P506476	Investment Project Financing (IPF)	STRONG	2025
Operation Name	Strengthening Government Capacity for Fiscal Reform Implementation (STRONG)		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Ukraine	Ukraine	EUROPE AND CENTRAL ASIA	Governance
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
Ministry of Finance	Ministry of Finance	10-Aug-2024	13-Sept-2024
Estimated Decision Review Date	Total Project Cost		
31-Jul-2024	10,000,000.00		

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Proposed Development Objective

To enhance the Government's capacity to plan and finance recovery and reconstruction.

B. Is the operation being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

Yes

C. Summary Description of Proposed Project Activities

[Description imported from the PAD Data Sheet in the Portal providing information about the key aspects and components/sub-components of the project]

The project aims to enhance Ukraine's ability to implement effective fiscal reforms amid the ongoing conflict with Russia. It focuses on strengthening public investment management, improving local government fiscal governance, and enhancing integrity in revenue



administration. By building capacity and integrating strategic planning systems, the project seeks to support Ukraine's reconstruction efforts and long-term development goals. The project is structured into five key components. The first component, Public Investment Management (PIM) for Reconstruction, focuses on improving IT systems integration, incorporating green criteria into planning, and building capacity within key ministries. The second component, Support to Planning Systems and Subnational Planning and Reconstruction Activities, aims to enhance strategic and spatial planning systems at both national and subnational levels, particularly in conflict-affected areas. The third component, Local Government Fiscal Governance Recovery, seeks to improve data collection methodologies for better resource allocation and develop guidelines to integrate climate and gender considerations into local budgets. The fourth component, Integrity and Compliance in Revenue Administration, focuses on integrating tax administration systems with government registries and implementing risk management strategies to enhance compliance. The fifth component of the STRONG project focuses on project management and operational support. It aims to ensure the successful implementation and monitoring of the project by providing advisory services and capacity building. Overall, the project is designed to produce significant outcomes, including the timely implementation of the PIM Roadmap, training of government staff at central and local levels, and support for conflict-affected local government areas in developing and executing recovery plans. By addressing these critical areas, the project aims to build a robust foundation for sustainable reconstruction and effective fiscal governance in Ukraine.

D. Environmental and Social Overview

D.1 Overview of Environmental and Social Project Settings

[Description of key features relevant to the operation's environmental and social risks and opportunities (e.g., whether the project is nationwide or regional in scope, urban/rural, in an FCV context, presence of Indigenous Peoples or other minorities, involves associated facilities, high-biodiversity settings, etc.) - Max. character limit 10,000]

STRONG aims to improve public investment management (PIM) for reconstruction by developing systems integration, incorporating green criteria, and building staff capacity, leading to better data flows, environmental sustainability, and efficient management of public investments. It will advise on preparation of technical and functional specifications, expertise in systems architecture, and IT integration for DREAM, Prozorro, and Treasury systems to ensure seamless integration and improved functionality. STRONG seeks to strengthen national and subnational planning systems and support reconstruction activities, resulting in high-quality territorial plans, enhanced local government capabilities, and improved coordination of reconstruction efforts. Technical assistance will be provided to the Ministry of Economy to incorporate climate adaptation and mitigation criteria into planning and PIM, ensuring environmental sustainability in investment decisions. The focus will be on good practices in integrating climate change consideration into project appraisal and selection processes; advisory support on guidelines for incorporating climate adaptation and mitigation into project design; training of project officials on green investment principles and practices; support the development and implementation of recovery and reconstruction activities in conflict-affected communities.

The project aims to bolster local government fiscal governance by improving methodologies for population estimates, developing fiscal risk assessment frameworks, and integrating



performance budgeting guidelines. This will ensure equitable resource distribution, fiscal stability, and accountability in budgeting processes.

Technical assistance will support the development of guidelines to incorporate performance information on gender and climate into local budgeting processes. This integration will enhance accountability, transparency, and efficiency in resource allocation, helping local authorities address significant challenges related to climate change and gender equality. By considering climate and gender impacts in budgeting, resources can be allocated more effectively to mitigate environmental risks and promote sustainable development while fostering social equity. More specifically, STRONG will support: (a) advisory support on development of performance indicators on climate and gender aligned with local priorities; (b) design of budget allocation mechanisms with performance targets; (c) training workshops for local government officials on performance budgeting for climate change action and gender equality.

STRONG will enhance integrity and compliance in revenue administration through better data sharing and risk management strategies, leading to improved compliance enforcement. It aims in contracting of Independent Verification Agent to verify achievement of DLRs under complimentary P4R (SURGE). Lastly, robust project management and operational support will be provided to ensure efficient implementation and strong stakeholder engagement. STRONG will focus on communications and engagement with internal and external stakeholders to build support for reforms across all components. Efforts will be directed towards: (a) Development and implementation of a communications strategy to disseminate project achievements and engage stakeholders; (b) Organization of stakeholder consultation meetings, workshops, and forums to solicit feedback and foster dialogue; (c) Production of communication materials and outreach campaigns to raise awareness about project objectives and outcomes. No civil works are envisaged under the project.

D.2 Overview of Borrower’s Institutional Capacity for Managing Environmental and Social Risks and Impacts

[Description of Borrower’s capacity (i.e., prior performance under the Safeguard Policies or ESF, experience applying E&S policies of IFIs, Environmental and social unit/staff already in place) and willingness to manage risks and impacts and of provisions planned or required to have capabilities in place, along with the needs for enhanced support to the Borrower – Max. character limit 10,000]

The MoF’s Department for International Cooperation will be the main Implementing Agency. This Department of International Cooperation also serves as the implementing agency for the World Bank-supported PEACE Project and has in-house staff that: have been trained on the ESF; have developed some of the required instruments and procedures under ESS2 (labor and working conditions), ESS4 (emergency preparedness and response procedures) and ESS10 (stakeholder engagement and grievance mechanisms, with GM focal point assigned). However, capacity for E&S risk management is still considered limited in term of number of staff and would need to be strengthened, to facilitate STRONG activities and support complimentary Fiscal PforR (SURGE), by appointing/hiring additional E&S staff/focal point.

II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Moderate

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A.1 Environmental Risk Rating

Moderate

[Summary of key factors contributing to risk rating, in accordance with the ES Directive and the Technical Note on Screening and Risk Classification under the ESF - Max. character limit 4,000]

The project focused strengthening institutional capacities of government institutions. These activities involve engaging consultants and potentially recruiting new government staff. The potential project-related risks and impacts on the environment are not likely to be significant and can be easily mitigated in a predictable manner. The potential risks include lack of adherence to fair labor practices, as well as health and safety concerns related to war hazards such as explosive remnants of war and aerial strikes. Also, though the use of modern IT solutions will increase resource efficiency manifold, this activity can result in an increase in e-waste and solid waste in the nodal institutions. The Project will ensure incorporation of proper safety measures in line with national legislation and War-Hazard Emergency Preparedness and Response Guidance into all envisaged activities requiring physical presence of people on site, in groups or individually.

A.2 Social Risk Rating

Moderate

[Summary of key factors contributing to risk rating, in accordance with the ES Directive and the Technical Note on Screening and Risk Classification under the ESF - Max. character limit 4,000]

The social risk rating for the project is Moderate. The project is mainly associated with overall positive social impacts as comprises capacity building activities namely: (a) the provision of technical assistance, training and operating costs to the Ministry of Finance (MoF), Ministry of Economy (MoE), and Ministry of Regional Development and Infrastructure (MoCTID) for the Operation's management, implementation, monitoring and evaluation; (b) targeted capacity building activities to enable the implementation of activities; (c) change management, outreach, and awareness-raising activities; (d) building capacity in MoF and MoE on Public Investment Management (PIM); (e) consulting support in PIM IT development; (f) capacity building for local government and sector staff, training deliver is dedicated to capacity building on project implementation procedures at the national and local government levels by means of trainings and awareness-raising activities, as well as supporting different associated IT solutions. Social risks are associated with perception of exclusion of certain vulnerable groups like refugees, displaced people, poor households, female-headed households, persons with disabilities, and the elderly - this may result in social tensions due to perceptions of elite capture, discrimination or other potential conflict arising from the project benefits. Additional social risks are related to socio-economic inequities and social tensions arising from inadequate grievance mechanisms and weak communication/outreach as well as war hazards like UXOs and ERWs. This adds an element of extreme uncertainty and risk of fatality or serious injury to project workers and nearby communities that cannot be entirely mitigated by environmental and social management measures. There are potential health and safety risks for trainers and participants of training activities stemming from war hazards. Preventative measures required to be in place for the project activities under emergency conditions will be described in the project's Environmental and Social Commitment Plan (ESCP) and Project

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Operations Manual (POM). These include principles for information disclosure and consultation, grievance redress, monitoring, ESIRT reporting, as well as Emergency Preparedness and Response Plans (EPRPs) for dealing with war-related risks and impacts on project beneficiaries. A draft Stakeholder Engagement Plan (SEP) will be adopted and implemented by MoF outlining a comprehensive outreach program that will need to be set up to ensure access to the program information among different stakeholders groups.

[Summary of key factors contributing to risk rating. This attribute is only for the internal version of the download document and not a part of the disclosable version - Max. character limit 8,000]

B. Environment and Social Standards (ESS) that Apply to the Activities Being Considered

B.1 Relevance of Environmental and Social Standards

ESS1 - Assessment and Management of Environmental and Social Risks and Impacts

Relevant

[Explanation - Max. character limit 10,000]

The standard is relevant. The project does not support physical works or envisages any land allocation. The capacity building activities themselves do not pose social or environmental risks. The direct potential environmental and social risks of Project activities are related to OHS and community health and safety for trainers and participants of training activities stemming from war hazards like ERWs and aerial attacks. This adds an element of extreme uncertainty and risk of fatality or serious injury to project workers and nearby communities that cannot be entirely mitigated by environmental and social management measures. The project will prepare Emergency Preparedness and Response Plan that will be applicable to all such activities. The draft ESCP has been prepared specifying that the terms of reference and outputs of Technical Assistance shall be consistent with the ESF, and that contracts with service providers shall incorporate ESF requirements (e.g. SEA/SH Code of Conduct, war-hazard emergency and preparedness plans) as well as for managing procurement, use and disposal of digital equipment.

ESS10 - Stakeholder Engagement and Information Disclosure

Relevant

[Explanation - Max. character limit 10,000]

The standard is relevant. The current state of martial law and military activity contexts mean that there are extremely limited engagement and consultation options. It is inadvisable to encourage large in-person meetings of local stakeholders due to the risk of aerial bombardment and virtual consultations will only reach a limited number of representative stakeholders without additional support measures. Project information and guidance on options for feedback and grievance redress will be disseminated through virtual consultations, with participating organizations and local administrations. Project activities include

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development and implementation of a communications strategy to disseminate project achievements and engage stakeholders, organization of stakeholder consultation meetings, workshops, and forums to solicit feedback and foster dialogue and production of communication materials and outreach campaigns to raise awareness about project objectives and outcomes. Social risks relate to ensuring that outreach and accessibility of capacity building activities are inclusive across geographically and socioeconomically dispersed local governments and stakeholders experiencing varying effects of the war. A draft Stakeholder Engagement Plan (SEP) proportional to the nature and scale of the project and associated social risks has been prepared based on the feedback received and will be updated throughout project implementation. The SEP has identified potential project-affected and other interested parties and outlined measures for engagement with these stakeholders. It has been prepared, based on limited online consultations with representatives of key stakeholder groups. The SEP has specified the institutional roles and responsibilities, timeline, and budget for conducting the stakeholder engagement during implementation. An accessible grievance redress mechanism (GRM) for the project will be established, publicized, maintained and operated in a transparent manner that is culturally appropriate and will be tailored to address any SEA/SH issues. The GRM will be readily accessible to all Project-affected parties, at no cost and without retribution, including concerns and grievances filed anonymously, in a manner consistent with ESS10. The grievance mechanism will also be able to receive, register and address concerns and grievances related to SEA/SH in a safe and confidential manner, including through the referral of survivors to gender-based violence service providers. The Project Operation Manual (POM) for the project will outline procedures on the GRM procedures and management.

ESS2 - Labor and Working Conditions

Relevant

[Explanation - Max. character limit 10,000]

The project will have a number of direct and contracted workers delivering professional technical assistance activities. Workers may include seconded government staff to conduct the trainings who will be considered direct workers under their existing employment arrangements. Ukraine's Labor Code is relatively advanced with measures covering equal opportunity and non-discrimination, regulates hiring and firing procedures, allows for collective bargaining and forbids forced and child labor. Absent is a requirement for a worker grievance mechanism. MoF has already developed a worker GM for another World Bank project (PEACE) that will be expanded for workers under this Project. Labor Management Procedures (LMP) for the Project consistent with ESS2 will be prepared. These procedures shall be further detailed in the Project Operations Manual (POM). In addition, the ESCP specifies requirements for labor & working conditions consistent with ESS2 including worker health & safety in emergency situations and SEA/SH Code of Conduct.

ESS3 - Resource Efficiency and Pollution Prevention and Management

Relevant

[Explanation - Max. character limit 10,000]

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This standard is relevant considering waste generation and opportunities to bring resource efficiency to activities supported by the project. Though the use of modern IT solutions will increase resource efficiency, this activity can result in an increase in e-waste and solid waste in the nodal institutions. The project will review (a) the extent of software/hardware purchase expected, (b) current practices of handling electronic and solid waste; (c) facilities and arrangements to handle the disposal of IT equipment, (d) opportunities to incorporate resource efficiency in all purchases, equipment and uses, (e) mechanisms to integrate waste management in all relevant activities. The ToRs for the selection of vendors will include the requirements for arranging the disposal of equipment (end-of-life and during repairs) in line with the National Rules and good practices. An E-Waste Management Plan will be prepared prior to the start of relevant activities and implemented accordingly.

ESS4 - Community Health and Safety

Relevant

[Explanation - Max. character limit 10,000]

Missile attacks continue to be a threat across the entire country. There is potential for security incidents due to aerial attacks during the delivery of the trainings supported by the Project. There is no anticipated large-scale movement of workers for project activities that would increase risk of SEA/SH among these groups. A War-Hazard Emergency Preparedness and Response Plan will be prepared outlining measures in response to community health and safety risks associated with the operating context, including measures to promote community awareness. This commitment will be outlined in the ESCP.

ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Not Currently Relevant

[Explanation - Max. character limit 10,000]

The project does not envisage activities that will require land allocation and/or economic resettlement.

ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources

Not Currently Relevant

[Explanation - Max. character limit 10,000]

The project does not intend to engage in activities that will cause any direct or indirect impact of biodiversity.

ESS7 - Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

Not Currently Relevant

[Explanation - Max. character limit 10,000]

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The project does not intend to engage in activities that will cause any direct or indirect impact of indigenous communities as there are no indigenous people per se in Ukraine as per ESS7 criteria.

ESS8 - Cultural Heritage

Not Currently Relevant

[Explanation - Max. character limit 10,000]

The project does not intend to engage in activities that will cause any direct or indirect impact of cultural heritage.

ESS9 - Financial Intermediaries

Not Currently Relevant

[Explanation - Max. character limit 10,000]

The project does not intend to engage financial intermediaries.

B.2 Legal Operational Policies that Apply

OP 7.50 Operations on International Waterways

No

OP 7.60 Operations in Disputed Areas

Yes

B.3 Other Salient Features

Use of Borrower Framework

No

[Explanation including areas where "Use of Borrower Framework" is being considered - Max. character limit 10,000]

The Borrower's framework is not going to use due to a number of gaps with ESF requirements

Use of Common Approach

No

[Explanation including list of possible financing partners - Max. character limit 4,000]

N/A

B.4 Summary of Assessment of Environmental and Social Risks and Impacts

[Description provided will not be disclosed but will flow as a one time flow to the Appraisal Stage PID and PAD - Max. character limit 10,000]

The Environmental Risk Rating for the IPF component is considered Moderate. The project does not support physical works or envisages any land allocation. The capacity building activities themselves do not pose social or environmental risks. There are potential health and safety risks

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for trainers and participants of training activities stemming from war hazards like ERWs and aerial attacks. This adds an element of extreme uncertainty and risk of fatality or serious injury to project workers and nearby communities that cannot be entirely mitigated by environmental and social management measures. The project will prepare Emergency Preparedness and Response Plan that will be applicable to all such activities and Labor Management Procedures (LMP) for the Project consistent with ESS2.

The ESCP specifies requirements for labor & working conditions consistent with ESS2 including worker health & safety in emergency situations and SEA/SH Code of Conduct and clear guidance provided in the POM to comply with the relevant requirements of ESS2.

A draft Stakeholder Engagement Plan (SEP) proportional to the nature and scale of the project and associated risks has been prepared based on the feedback received during consultation for the project and will be updated throughout project implementation.

C. Overview of Required Environmental and Social Risk Management Activities

C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by implementation?

[Description of expectations in terms of documents to be prepared to assess and manage the project’s environmental and social risks and by when (i.e., prior to Effectiveness, or during implementation), highlighted features of ESA documents, other project documents where environmental and social measures are to be included, and the related due diligence process planned to be carried out by the World Bank, including sources of information for the due diligence - Max. character limit 10,000]

Draft Stakeholder Engagement Plan and draft Environmental and Social Commitment Plan (ESCP) by Appraisal (including commitments on TOR for TA activities undertaken in a manner consistent with the ESF, labor and working conditions, SEA/SH Code of Conduct, use and disposal of digital equipment; War-Hazard Emergency Preparedness and Response Plan, Labor Management Procedures).

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III. CONTACT POINT

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