

Document of  
The World Bank

FOR OFFICIAL USE ONLY

Report No: {PP1747}

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF (US\$ 0.40 MILLION EQUIVALENT)

TO

UKRAINE

FOR A

*SUPPORT TO EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE COMPLIANCE  
PROCESS PROJECT*

22 December 2015

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

## CURRENCY EQUIVALENTS

(Exchange Rate Effective on November 20, 2015)

1 UAH = US\$ 0.041

US\$ 1 = 24.11UAH

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

CPS	Country Partnership Strategy
CSO	Civil Society Organization
DPL	Development Policy Lending
EGPS	Extractives Global Programmatic Support
EFF	Extended Fund Facility
EITI	Extractive Industries Transparency
EI	Extractive Industries
FM	Financial Management
GOU	Government of Ukraine
GRS	Grievance Redress Service
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
MDTF	Multi-Donor Trust Fund
MSG	Multi-Stakeholder Group
MOECI	Ministry of Energy and Coal Industry
PDO	Project Development Objective
UAH	Ukrainian Hryvnia
US\$	United State Dollar
TA	Technical Assistance

Regional Vice President:	Cyril Muller
Country Director:	Qimiao Fan
Global Practice Senior Director:	Anita Marangoly George
Practice Manager:	Paulo De Sa
Task Team Leader:	Ilhem Salamon

# UKRAINE

## *Support to Extractive Industries Transparency Initiative Compliance Process*

### TABLE OF CONTENTS

	<b>Page</b>
<b>I. STRATEGIC CONTEXT .....</b>	<b>4</b>
A. Country Context.....	9
B. Sectoral and Institutional Context.....	11
C. Higher Level Objectives to which the Project Contributes .....	14
<b>II. PROJECT DEVELOPMENT OBJECTIVES .....</b>	<b>15</b>
A. PDO.....	15
B. Project Beneficiaries .....	15
C. PDO Level Results Indicators.....	16
<b>III. PROJECT DESCRIPTION .....</b>	<b>16</b>
A. Project Background.....	16
B. Project Components .....	17
C. Project Cost and Financing .....	20
<b>IV. IMPLEMENTATION .....</b>	<b>20</b>
A. Institutional and Implementation Arrangements .....	20
B. Results Monitoring and Evaluation .....	22
<b>V. KEY RISKS AND MITIGATION MEASURES .....</b>	<b>22</b>
A. Systematic Operations Risk-rating Tool.....	22
B. Overall Risk Rating Explanation .....	23
<b>VI. APPRAISAL SUMMARY .....</b>	<b>24</b>
A. Economic and Financial Analyses .....	24
B. Technical Issues .....	24
C. Financial Management.....	25
D. Procurement .....	25
E. Environment and Social (including Safeguards) .....	25
F. World Bank Grievance Redress.....	26

## APPRAISAL DATA SHEET

*Ukraine*

*SUPPORT TO EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE COMPLIANCE  
PROCESS PROJECT (P158379)*

### PROJECT PAPER

*EUROPE AND CENTRAL ASIA*

*0000009266*

Report No.: PP1747

Basic Information			
Project ID P158379	EA Category C - Not Required	Team Leader(s) Ilhem Salamon	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 01-Jan-2016	Project Implementation End Date 31-Dec-2018		
Expected Effectiveness Date 01-Jan-2016	Expected Closing Date 31-Dec-2018		
Joint IFC No			
Practice Manager/Manager Paulo De Sa	Senior Global Practice Director Anita Marangoly George	Country Director Qimiao Fan	Regional Vice President Cyril E Muller
Approval Authority			
Approval Authority CD Decision			
Borrower: Ministry of Economic Development and Trade			
Responsible Agency: Ministry of Energy and Coal Industry			
Contact: Telephone No.:	Larysa Mykytko 3802063740	Title: Email:	Head of Sector Larysa.mykytko@mev.energy.gov.ua
Project Financing Data(in USD Million)			
Total Project Cost:	0.40	Total Bank Financing:	0.00

Financing Gap:	0.00									
<b>Financing Source</b>				<b>Amount</b>						
Extractives Global Programmatic Support				0.40						
Total				0.40						
<b>Expected Disbursements (in USD Million)</b>										
Fiscal Year	2016	2017	2018	2019	0000	0000	0000	0000	0000	0000
Annual	0.10	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	0.10	0.40	0.40	0.40	0.00	0.00	0.00	0.00	0.00	0.00
<b>Institutional Data</b>										
<b>Practice Area (Lead)</b>										
Energy & Extractives										
<b>Contributing Practice Areas</b>										
<b>Cross Cutting Topics</b>										
[ ] Climate Change										
[ ] Fragile, Conflict & Violence										
[ ] Gender										
[ ] Jobs										
[ ] Public Private Partnership										
<b>Sectors / Climate Change</b>										
Sector (Maximum 5 and total % must equal 100)										
Major Sector	Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %				
Energy and mining	Oil and gas		100							
Total			100							
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.										
<b>Themes</b>										
Theme (Maximum 5 and total % must equal 100)										
Major theme	Theme					%				
Public sector governance	Other accountability/anti-corruption					50				
Social dev/gender/inclusion	Participation and civic engagement					30				
Environment and natural resources	Other environment and natural resources					20				

management	management		
Total		100	
<b>Proposed Development Objective(s)</b>			
The project development objective is to assist Ukraine in implementing its EITI agenda.			
<b>Components</b>			
<b>Component Name</b>	<b>Cost (USD Millions)</b>		
EITI Implementation Support	0.17		
Capacity Building Activities	0.08		
Communication and Outreach	0.06		
Project Management	0.09		
<b>Compliance</b>			
<b>Policy</b>			
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]	
Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]	
Have these been approved by Bank management?	Yes [ ]	No [ X ]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]	
<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	
Environmental Assessment OP/BP 4.01		<b>X</b>	
Natural Habitats OP/BP 4.04		<b>X</b>	
Forests OP/BP 4.36		<b>X</b>	
Pest Management OP 4.09		<b>X</b>	
Physical Cultural Resources OP/BP 4.11		<b>X</b>	
Indigenous Peoples OP/BP 4.10		<b>X</b>	
Involuntary Resettlement OP/BP 4.12		<b>X</b>	
Safety of Dams OP/BP 4.37		<b>X</b>	
Projects on International Waterways OP/BP 7.50		<b>X</b>	
Projects in Disputed Areas OP/BP 7.60		<b>X</b>	
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Recruitment of a Procurement Specialist		15-Mar-2016	
<b>Description of Covenant</b>			
No later than 60 days from the effectiveness date, select and hire a procurement specialist acceptable to			

the Bank.				
<b>Conditions</b>				
<b>Source Of Fund</b>	<b>Name</b>			<b>Type</b>
<b>Description of Condition</b>				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Ilhem Salamon	Team Leader (ADM Responsible)	Senior Oil and Gas Specialist	Oil and Gas	GEEDR
Irina Shmeliova	Procurement Specialist (ADM Responsible)	Procurement Specialist	Procurement	GGODR
Oxana Druta	Financial Management Specialist	Financial Management Specialist	Financial Management	GGODR
Alexei Slenzak	Safeguards Specialist	Senior Environmental Specialist	Sr. Environmental Specialist	GENDR
Daksha Shakya	Team Member	Consultant	Social Development/Operations	GEEX1
Elena Segura Labadia	Team Member	Senior Counsel	Legal	LEGLE
Hayat Taleb Al-Harazi	Team Member	Program Officer	Operations	MNARS
Irina Babich	Team Member	Sr Financial Management Specialist	Financial Management	GGODR
Jayne Njoki Dzowela	Team Member	Senior Program Assistant	ACS	LEGLE
Julia Samoslied	Team Member	Team Assistant	ACS	ECCUA
Margaret Png	Counsel	Lead Counsel	Legal	LEGLE
Srivathsan Sridharan	Team Member	Finance Analyst	Disbursement	WFALS
Susanna Kantuni	Team Member	Program Assistant	Legal	LEGLE
<b>Extended Team</b>				
<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>Location</b>	

<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>



## I. STRATEGIC CONTEXT

### A. Country Context

1. **Ukraine is facing political and economic challenges.** Following the political protests that culminated in the change of the Government in late February 2014, the year 2014 saw several momentous events: conflict in the East, Presidential elections in May; Parliamentary elections in October; and forming a new Government formed in December. The new Government that took office in December 2014 has a mandate for reforms but faces formidable challenges, such as: containing conflict and restoring peace in the East; ensuring macroeconomic stability; tackling a major banking crisis; reducing the fiscal deficit in the midst of a recession without triggering social unrest or backlash against reforms; and reducing deep-seated corruption while contending with powerful vested interests that continue to oppose reforms.
2. **The economy contracted sharply in 2014 and 2015 because of the conflict in the East, an unfavorable external environment, and structural bottlenecks.** The conflict in the East has led to disruption in supply and distribution chains, while confidence in the overall economy has been undermined by both the conflict and structural bottlenecks. In addition, a drop in global commodity prices resulted in a deterioration of Ukraine's terms of trade. As a result, real GDP contracted by 6.8 percent in 2014 and even more sharply by 16 percent (year-over-year) in the first half of 2015. The currency depreciated by about 50 percent in 2014, which together with increases in utility tariffs, pushed 12-month consumer price inflation to 24.9 percent y/y at the end of 2014.
3. **The ongoing conflict caused significant contraction of the industrial production in the East of Ukraine,** broken supply chains and distorted economic ties with the Russian Federation. The connectivity with the center and West of the country has therefore gained increased importance for reinvigorating the economic activity in the Eastern and Southern regions of Ukraine and ensuring greater resilience to the conflict.
4. **Despite initial signs of progress toward macroeconomic stabilization, Ukraine remains in crisis and faces serious risks.** After contracting by 16 percent y/y in the first half of 2015, the economy contracted less sharply by 7 percent y/y in the third quarter. Ukraine successfully restructured a major part of its external debt in November 2015. However, the consolidated fiscal deficit (including Naftogaz) for 2015 remains large at about 7.3 percent of GDP (down from 10.1 percent GDP in 2014) and public and guaranteed debt remains high at 90.5 percent of GDP.
5. **Economic prospects for Ukraine depend on how the conflict in the East unfolds and whether reforms on multiple fronts can be advanced in an uncertain environment.** After contracting by 12 percent overall in 2015, real GDP is projected to stabilize and recover gradually in 2016 and 2017. While the conflict and weaker external demand has led to sharp declines in the metals and mining sectors, the considerable currency depreciation is expected to support exports and the tradable sectors more generally. Furthermore, the gas tariff increases coupled with improved spending efficiency should create fiscal space to unlock government investment in the medium term. In addition, continued resolution of problems in the banking system could permit gradual resumption of lending. These factors are expected to set the stage

for a modest economic recovery, with real GDP projected to grow 1 percent in 2016 and 2 percent in 2017. However, the degree of uncertainty remains high, and prospects for recovery will depend on how the conflict in the East unfolds and whether the authorities are able to sustain reforms.

6. **The crisis threatens to reverse some of the gains Ukraine made in earlier years in reducing poverty and boosting shared prosperity.** Against the backdrop of negative growth and high inflation, real wages and pensions have declined, thus reversing gains made earlier in income levels, particularly among the less-well off. This decline was only partially offset by social-assistance reforms aimed at better targeting existing benefits, while deteriorating labor-market conditions aggravated these trends. In the first quarter of 2015, the unemployment rate increased to 9.6 percent (from 9.0 percent a year earlier) and real wages declined by 21 percent. This decline is uneven across sectors, with the lowest nominal-wage growth in the public sector, particularly in health, education, public administration, and defense (which employ approximately 28 percent of those employed among the bottom 40 percent in the income distribution). All these factors combined led to an increase in the moderate poverty rate from 3.2 percent in 2013 to 5 percent in 2014. The moderate poverty rate is expected to double to 10.2 percent in 2015. And even if the modest recovery anticipated in 2016 and 2017 materializes, the poverty rate would remain above its 2014 levels.

7. **Managing fiscal risks is critical to medium term macroeconomic stability in Ukraine and will require structural reforms on a number of fronts.** The medium term macroeconomic framework projects a decline in the overall fiscal deficit from 7.3 percent of GDP in 2015 to 2.6 percent by 2018, with public and publicly guaranteed debt projected to decline from 90.5 percent of GDP in 2015 to 77 percent by 2018. This will, however, require reforms to address fiscal risks from a number of sources including current expenditure pressures (pensions and a large public sector footprint), a cumbersome tax regime, the Naftogaz deficit, and financial sector contingent liabilities.

8. **Fiscal risks have been shaped further by a far-reaching tax reform proposal.** The 2016 budget is underpinned by a far-reaching tax reform proposal which would cut the social security tax by about half and also slightly reduce rates on other taxes (VAT and personal and corporate income tax). The hope is that cutting tax rates would shrink the informal economy and improve compliance. However, in the short term, the proposal could result in significant revenue losses and undermine fiscal sustainability without complementary measures to strengthen tax administration, broaden the tax base, and rationalize expenditures. The authorities have indicated that the 2016 budget would contain certain compensatory tax and expenditure measures to ensure that the projected overall fiscal deficit target of 3.7 percent of GDP in 2016 is met.

9. **The current account deficit has narrowed but significant external financing needs come from external debt repayments.** The current account deficit narrowed to about 1 percent of GDP in 2015 and is expected to stay at this level over the next few years. However, Ukraine will require significant external financing to meet repayments on its external corporate and banking debt of about US\$9 billion per year during 2016-2018. Further cooperation with the IMF and other official creditors will thus be important to meet external financing needs, rebuild international reserves, and restore investor confidence. In November 2015, Ukraine successfully

restructured about US\$15 billion of its public external debt through a 20 percent haircut and maturity extension. Agreement has not, however, been achieved on US\$3 billion in debt held by the Russian Federation coming due in December 2015. On December 8, the IMF Board approved a new lending in arrears policy that would allow the IMF to provide financing, under certain conditions, to a country in arrears to official bilateral creditors. On December 16, 2015, the IMF Board confirmed that the US\$3 billion debt would be considered official for the purposes of its policy.

**10. The First Review of the IMF Extended Fund Facility (EFF) Arrangement was approved in August 2015, while the Second Review has been delayed but is expected to be completed in January 2016.** The Second Review hinges upon approval by Ukraine of a satisfactory budget for 2016. The four-year EFF of US\$17.5 billion was approved in March 2015 and is intended to provide Ukraine with the opportunity to reform its economy, restore stability and lay the basis for growth over the medium term. Policies targeted under the IMF's EFF and supported by the World Bank's two Development Policy Loans<sup>[1]</sup> (DPL) include:

- a. Decisive structural reforms, including (i) broad energy reforms, including the restructuring of Naftogaz to strengthen corporate governance and promote energy efficiency and energy independence; (ii) ambitious end-user tariff increases; (iii) reforms of state-owned enterprises to improve corporate governance and reduce fiscal risks; and (iv) governance reforms, including anti-corruption and judicial measures, deregulation and tax administration reforms;
- b. Securing of financial stability, focused on (i) strengthening banks through recapitalization, reduction of related party lending and resolution of impaired assets; (ii) exchange rate flexibility to protect the economy against external shocks; and (iii) strong monetary policy to restore prices stability; and
- c. Strengthening of public finances, through (i) an expenditure-led adjustment to support fiscal consolidation over the medium term; and (ii) revamped social protection schemes to protect the poorest households.

## **B. Sectoral and Institutional Context**

**11. Ukraine has significant natural resources and plays a crucial role as a transit country for Russian natural gas exported to Western Europe.** Natural gas exploration and production in Ukraine started in 1912 and first exports of natural gas were made to Poland in 1945. Ukraine has significant natural resources and plays a crucial role as a transit country for Russian natural gas exported to Western Europe. Oil and gas resources are concentrated in three regions: the Carpathian region in the west, Dnipro-Donetsk region in the east; and Black Sea-Azov Sea region in the south. The Dnipro-Donetsk region in the east accounts for 80% of proven reserves and approximately 90% of gas production. Based on the estimates of the Government of Ukraine, Ukraine's hydrocarbon reserves are 9 billion tonnes of oil equivalent (toe). Natural gas reserves are estimated at 5.4 trillion cubic metres (Tcm) with proven reserves of 1.1 Tcm of natural gas, more than 400 Mt of gas condensate and 850 Mt of oil reserves.

---

<sup>[1]</sup> The two World Bank DPLs were approved by the World Bank Board of Executive Directors in May 2014 and August 2015 for an amount of US\$750 million and US\$500 million respectively.

12. **Ukraine also has considerable mineral resources being one of the world's top 10 leading producers of a number of minerals including: iron ore, steel, rutile, titanium sponge, manganese ore, and ilmenite.** Ukraine also has abundant coal reserves ranking Ukraine sixth in the world for hard coal reserves, after the United States, China, Russia, Australia and South Africa. Most of the coal reserves in Ukraine are located in the Donetsk Coal Basin in eastern Ukraine in the regions of Donetsk, Luhansk and Dnipropetrovsk. There are two other basins, the Lviv-Volyn Coal Basin in western Ukraine and the Dnieper Coal Basin in central Ukraine.

13. **Restructuring and upgrading the energy sector continue to be the key development challenges for the Government of Ukraine (GoU). Ukraine is among the world's top-10 energy intensive economies.** In addition, Ukraine is one of the most energy-inefficient countries in the region. The sector faces serious challenges in maintaining the security, reliability, and quality of supply due to delays in energy sector reform, the poor financial condition of energy sector enterprises, a lack of investments, and deferred maintenance of aging infrastructure.

14. **The gas sector is largely state owned and dominated by a national vertically integrated oil and gas company, which faces financial difficulties.** NJSC “Naftogaz of Ukraine” (Naftogaz) has operations in exploration, development and production of crude oil and natural gas, as well as processing and supply to customers. The company is responsible for the transit of Russian gas via Ukraine to European markets, and for the operation of the gas storage facilities. Naftogaz supplies gas to households and the public sector through the regional gas distribution companies and district heating utilities, and also supplies about 10 percent of gas demand from industry.

15. **Gas and district heating tariffs for households have historically been heavily subsidized, creating large fiscal and quasi-fiscal deficits, which in 2014 were estimated to account for about 5.7 percent of GDP.** Gas transportation losses are nearly double that of Western Europe. In addition, gas storage is required (i) because of the seasonal nature of gas demand, which is higher in winter than in summer; (ii) because of physical or financing constraints which limit the ability to purchase gas solely during the winter months; (iii) to take advantage of lower gas import prices during the summer months; and (iv) for security of gas supply. Domestic production of gas has gradually decreased due to underinvestment in maintenance of existing production and in exploration and development of new fields. Finally, governance, transparency and accountability of the gas sector are weak. The monopolistic market structure without adequate regulation of the dominant operator led to inefficient sector operation.

16. **The Government of Ukraine recognizes the gas sector challenges and has embarked on an ambitious program to reform and restructure the gas sector.** The key reforms are supported by the IMF's EFF. These involved the adoption of the Gas Market Law (in April 2015) and the associated Gas Sector Reform and Implementation Plan (in March 2015) to comprehensively restructure the gas sector, including: gradually increasing energy prices (and accompanying social assistance measures); incentivizing domestic production through attracting more private and international investment to the sector; restructuring of Naftogaz and distribution companies; and improving governance of the sector through introduction of an accelerated gas and heat meters installation program. The Government is strengthening the

independence of the energy regulator responsible for tariff setting in the communal service and energy markets. As part of its commitment to increase transparency in the gas sector, the Government also undertook to join the Extractive Industries Transparency Initiative (EITI) and was accepted as a Candidate on October 17, 2013. The first Ukraine EITI report, which focuses on the oil and gas sectors, was published on December 4, 2015.

17. **In order to reduce fiscal impact of poor gas pricing policies, the Government is implementing a progressive increase of gas and district heating tariffs to reach parity with import prices by April 2017.** An increase of residential gas tariffs by 56 percent in May 2014 was followed by further substantial increases in gas (average increase of 285 percent) and district heating (70 percent) tariffs for households implemented in April 2015. The Government has committed to further tariff increases to reach 75 percent import price parity by April 2016 and 100 percent by April 2017. The impact of such tariff increases is still unknown; this is due to the fact that they were implemented at the end of the 2014/15 heating season, and that the first collections from households in the 2015/16 heating season will take place from mid-December 2016 onwards. Industrial gas prices will continue to be adjusted monthly to reflect exchange rate and gas import price movements.

18. **Eliminating energy subsidies requires an effective strategy for protecting lower income households from the adverse impact of higher energy prices.** Increasing the gas and district heating tariffs from 2014 to current levels has been estimated to increase the share of energy costs in total expenditure from 6.9 percent to 17.2 percent for the poorest 30 percent of the population, without adjustment in volume of consumption. Further adjustments are needed to bring the energy prices to full cost recovery. To mitigate the impact, the government has improved the social assistance program to better target the poor and the application process has been consolidated and simplified. As of November 2015, 4.4 million households, or about 30 percent of all households, will receive benefits from the new Housing and Utilities Subsidy Program. The program improves significantly the resilience of the poor population to further fluctuations in energy prices. The Ukrainian government has allocated UAH 24 billion (about US\$1 billion) towards energy social assistance programs. Extensive public information campaigns to explain the necessity of energy price increases and the role of social assistance to shelter the neediest families are also being implemented.

19. **Several measures are under implementation to improve collection rates and collection transparency.** These include the option of smoothing bill payments, independent audit of Naftogaz receivables and legislative amendments to improve Naftogaz collections. Additionally, by end 2016, Ukraine aims to achieve universal gas and heat metering, make it compulsory to bill based on meter reading where meters exist, and move to universal consumption based billing.

20. **The restructuring, unbundling and enhancement of corporate governance of Naftogaz, is central to the overall gas sector reform and will have serious implications for the overall outcome of reforms.** The unbundling will need to be compliant with the Third Energy Package of the EU. It is expected that the Government will consider suitable models and approaches and reach a decision in a transparent and well-informed manner. The World Bank is supporting Naftogaz's efforts in that regard.

21. **Civil society in general is very active but so far has had limited influence in acting as an effective watchdog of public financial management.** Civil society organizations (CSOs) have been very active in pushing for the implementation EITI in Ukraine. Since late 2010 CSOs organized a number of conferences for capacity building and awareness raising for EITI. These events were followed-up with two other conferences on the implementation of EITI in Ukraine organized in 2012 and 2014 by the Ministry of Energy with support from the World Bank. All these public events were crucial for raising awareness on the importance of the implementation of EITI in Ukraine and building the basic capacity for kick-starting broader public discussions on transparency in the extractives sectors. Civil society's EITI advocacy is responsible for some reform activity. For example, the Cabinet of Ministers' adoption of the Decree on Ukraine's Accession to the EITI. Minister of Energy and Coal Industry (MOECI) was appointed as the leader for implementation of EITI by the Cabinet of Ministries. The Multi-Stakeholder Working Group (MSG) for EITI in Ukraine was established on October 11, 2012. Ukraine is now an EITI candidate country with the first EITI report being published in December 2015.

### **C. Higher Level Objectives to which the Project Contributes**

22. **The Bank is deeply engaged in supporting Ukraine's gas sector and governance reforms.** The engagement consists of: (i) technical assistance for the implementation of the Gas Sector Reform Implementation Plan, developed under the World Bank financed DPL, to comprehensively reform the gas sector, including gradual energy price increases (and accompanying social assistance measures); incentivizing domestic production through attracting more private and international investment to the sector; restructuring of Naftogaz and distribution companies; as well as improving governance of the sector through introduction of an accelerated gas and heat meters installation program; (ii) technical assistance on energy tariff reform, with the objective of supporting the Government in designing and implementing a communication strategy on energy tariff reforms and providing advice to the Government on how to improve targeting and performance of the newly introduced social protection scheme; (iii) technical assistance on social safety nets and subsidy reform; (iv) support for Naftogaz's Institutional Reform and Corporate Restructuring, under an EU-funded Trust Fund<sup>1</sup>; (v) lending activities to improve the energy efficiency of municipal district heating companies, and technical assistance focused on energy efficiency in cities; (vi) technical assistance for EITI compliance and implementation; and (vii) a proposed IBRD Guarantee is under preparation to help mitigate security of gas supply risks over the transitional period of the next three years, by reducing Naftogaz's liquidity constraints.

23. **The implementation of EITI could support GoU's efforts for improving governance and enhancing transparency in the mining and oil and gas sectors.** Through the implementation of EITI, the government can demonstrate its adherence to an internationally

---

<sup>1</sup> Joint European Commission (EC) and World Bank (WB) Facility to Support the Ministry of Energy and Coal Industry of Ukraine and NJSC Naftogaz of Ukraine (Naftogaz) for the Modernization of Ukraine Gas Transit System.

recognized standard and practices of good, open and responsible corporate governance. Greater transparency in production data, licenses, and payments and revenues can boost prospective investors' confidence and enhance competition. This could support Ukraine in consolidating its credibility with international public and private partners.

24. **The proposed project is in line with and supports the World Bank Group's Country Partnership Strategy (CPS) for Ukraine (FY12-16) (Report No. 66279-UA). Outcome 4 of the CPS, "Improved governance in the energy sector", amongst others, supports Ukraine's efforts for implementing EITI.** This project will provide direct support for the implementation of the EITI in Ukraine with the objective of enhancing the overall transparency in the extractives sectors.

25. **By helping Ukraine implement its EITI agenda, the proposed activity would be a small but important element in support of the Bank's partnership with Ukraine.** The Bank supports Ukraine on its difficult reform path, through a number of activities including an EU funded technical assistance for the restructuring of NAK Naftogaz, to assist in unbundling of this major state enterprise and improving its financial management. Bank projects support Ukraine's power, hydropower, district heating sectors in modernization of its infrastructure, increasing energy efficiency and improving its governance. In the framework of a DPL in early 2015, the Bank assisted Ukraine in developing legislation enabling reforms, and in moving towards more independent and professional energy sector regulatory body. Further under the DPL, the Bank assisted in developing a Gas Sector Reform Implementation Action Plan and will continue supporting its implementation going forward through intensive technical assistance (TA) and policy advice.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

26. The project development objective (PDO) is to assist Ukraine in implementing its EITI agenda.

### **B. Project Beneficiaries**

27. Direct project beneficiaries of the project include members of the Ukraine EITI MSG, staff of the Ukraine EITI National Secretariat, operators in the extractives industries, and civil society organizations/representatives who will benefit from capacity building activities supported by this project. Trainings to be supported by this project will enable MSG members to better understand the key issues and challenges pertaining to extractive sector development. With enhanced capacity, the MSG can influence positively decisions on sustainable management of the extractives sector in Ukraine. Further, disclosure of payment and revenue flows between the industry and the government through EITI Reports and analytical work related to the regulatory and legal framework reduces opportunities for corruption and as such the implementation of this project will benefit the wider public in Ukraine.

### **C. PDO Level Results Indicators**

28. Progress in achieving the PDO will be measured by the following key results indicators:
- a) Improved capacity to implement EITI agenda, as measured by the inclusion of coal and iron ores in Ukraine EITI reports.
  - b) Enhanced capacity of the Ukraine EITI MSG to manage the EITI process, measured by an increased percentage of total revenues reconciled in the EITI reports.
  - c) Improved capacity to communicate on issues associated with transparency and accountability in the extractive industries measured by increased reporting in the media by journalists compared to the previous year.

## **III. PROJECT DESCRIPTION**

### **A. Project Background**

29. Following an extensive advocacy effort led by local civil society organizations, the Cabinet of Ministers of Ukraine passed a resolution "on Ukraine's accession to the EITI" on September 9, 2009. Ukraine was admitted as an EITI candidate on 17 October 2013 after successfully completing the four "sign-up" steps including the development of a work plan, which was validated by the EITI Board. Ukraine as required to publish its first EITI report by October 17, 2015 with the objective to become compliant by October 2016.

30. Given that enhancing transparency and accountability represents a substantial challenge in the country, the MSG that was formed in 2012 decided to be carefully optimistic about what it could realistically achieve and limited the coverage of the first EITI report to the oil and gas sector, while the second EITI Report would be extended to mining. The publication of EITI Reports that "include contextual information about the [overall] extractive industries" (requirement 3) and are "comprehensive [and] include full government disclosure of extractive industry revenues, and disclosure of all material payments to government by oil, gas and mining companies" (requirement 4) are requirements for EITI compliance. Ukraine will, therefore, have to publish its second EITI report before the validation period starts on October 17, 2016.

31. Soon after its admission as a candidate country, however, Ukraine experienced a prolonged political and economic crisis. The EITI process was understandably delayed but kept moving forward. The MSG continued to meet reasonably regularly throughout the crisis and instead of seeking a voluntary suspension, opted to move ahead with preparations for EITI Reporting, in the hope that the reporting process could begin quickly once the political situation stabilized.

32. Despite the challenging geopolitical context, substantial progress has been made with the EITI process in Ukraine. On 16 June 2015, the Parliament of Ukraine adopted Law No. 521-VIII "On Amending Certain Laws of Ukraine with Respect to Strengthening Transparency in Extractive Industries in Ukraine" (the "Law") mandating the participation of all relevant parties in EITI reporting. The Law was approved by the President and came into force on 12 July 2015. The Ministry of Energy and Coal Industry has also developed bylaws specifying the scope of EITI reporting, entities required to participate, and the implications of non-participation. These



bylaws are expected to be adopted by the Cabinet of Ministers by the new calendar year. The laws were prepared to enable the disclosure of financial information and business activities of Ukrainian extractive companies ahead of the submission of the EITI report due by 17 October 2016. As a result of the bylaws still not being adopted, the Independent Administrator in charge of developing the first EITI Report for Ukraine experienced difficulties in collecting data from several major players such as the State Fiscal Service and Ukrnafta. The Ukraine MSG, therefore, decided to request a deadline extension for the publication of the first EITI Report to ensure that it would be as comprehensive and meaningful as possible. The request for extension was granted by the EITI Board the day Ukraine published its first report on December 4, 2015.

33. While the preparation of the first EITI report necessitated substantial effort and demonstrated a strong leadership and commitment from the Ukraine MSG, the challenges ahead are significant. The promulgation of *Law No. 521-VIII* enabled the publication of the first EITI report covering oil and gas. However, the lack of a bylaw mandating participants to publish all data required under EITI reporting resulted in the publication of a weak report, providing aggregated data only where more detailed information is needed (e.g. production by company and region). Substantial effort will be needed to ensure the preparation of a report including all mandatory data in the oil and gas sector. In addition, compliance to the global standard of transparency and accountability can only be reached by countries publishing reports, which cover all their extractive industries. The inclusion of coal, iron ores, and other potentially relevant mining industries is seen as a huge challenge.

34. To ensure the publication of a second EITI report, covering all extractive industries by October 2016, much effort will thus be needed to allow the Ukraine MSG to (i) communicate extensively and effectively on the EITI requirements and process, (ii) engage all relevant stakeholders in the EITI process by providing them with enhanced capacity, and (iii) build the analytical and legal work needed to underpin the reform agenda associated with the EITI compliance process. The proposed grant is meant to support these critical efforts, the publication of the next EITI reports and other key activities needed to ensure the sustainability and mainstreaming of EITI in Ukraine.

## **B. Project Components**

35. The proposed grant would be a follow-on grant to an EITI MDTF grant (Ukraine EITI Implementation Support Project, P128405) which financed the establishment of Ukraine's national EITI Secretariat and the first EITI report's preparation and dissemination. The proposed grant is meant to push EITI implementation in Ukraine forward and support critical efforts needed to help the country reach EITI compliance. A follow-up grant is needed to ensure the sustainability and mainstreaming of EITI in Ukraine. The signing of key contracts under the proposed project will be needed to trigger access to a follow-on grant.

36. **Component A: EITI Implementation Support** (US\$ 175,000). This component will support the activities essential to EITI implementation and meeting Ukraine's obligations as an EITI candidate country to reach compliance. These activities include:

- Annual EITI reports for Ukraine (US\$ 150,000). Recruitment of an Independent Administrator (IA) in charge of the preparation of one EITI report covering all extractive industries for the calendar years 2014 and 2015.
- Sub-committees and regional MSG meetings (US\$ 25,000). Costs of meetings of the sub-national coordination units recently created by the MSG to broaden involvement in the EITI process and regional MSG meetings for the first year of implementation.

37. When additional Extractives Global Programmatic Support (EGPS) financing becomes available to Ukraine, a follow-on project will be prepared with the objectives to use the funds to finance: (i) sub-committee and regional MSG meetings for the second year of implementation (US\$25,000); (ii) a review of the legal and regulatory framework of the extractive industries including a needs assessment for additional policy, reform or investment. The review and needs assessment, and any underpinning work would be prepared in compliance with and taking into account the Bank's safeguards and related operational policies. (US\$ 400,000); and (iii) a feasibility study for setting up an integrated government system for generating EITI data more efficiently (US\$300,000).

38. **Component B: Capacity Building Activities** (US\$ 75,000). Building on lessons learnt from the preparation of the first report, it will be important to help operators and state agencies better understand the EITI requirements. Under this Component, the project will thus support advisory services for state agencies and companies operating in the extractives industries to comply with EITI requirements.

39. When additional EGPS financing becomes available to Ukraine, the funds will finance: (i) additional training to deepen Ukraine EITI MSG and National Secretariat knowledge of issues associated with resource management (US\$ 75,000); (ii) core training on EITI and natural resources management tailored for all relevant stakeholders government officials, parliamentarians, companies operating in the Extractives Industries (EI), civil society (including NGOs, the media, and youth) on matters related to the extractive industries, EITI Standard, and overall transparency in the sector (US\$ 50,000); and (iii) tailored training to investigative journalists on reporting on EI and EITI (US\$ 50,000).

40. **Component C: Communication and Outreach** (US\$ 60,000). This component will support the implementation of the Ukraine EITI Communication Strategy for the first year of project implementation and will include the following activities:

- Print and visual media outreach campaigns (US\$ 25,000). Support for the EITI National Secretariat to publish and disseminate crucial information on EITI implementation through radio, TV, and print media outreach campaigns, in order to inform the public on the overall extractives industry, EITI implementation and related events;
- Organization of awareness raising events (US\$ 30,000). Round tables, press conferences, conferences, workshops will be organized to increase the overall understanding of the key issues in the management of the extractives sectors.

- Internet and social media activities (US\$ 5,000). Support for the management of a Ukraine EITI website and social media accounts that contains information specifically related to the EITI implementation in Ukraine as well as wider information on activities related to transparency of extractive industries in Ukraine, as well as global news and trends on EITI implementation experiences from other countries.

41. When additional EGPS financing becomes available to Ukraine, the funds will be used to finance a second year of implementation.

42. **Component D: Project Management** (USD\$ 90,000). This component will support the costs of the EITI National Secretariat staff (National Coordinator of the Secretariat, Financial, Procurement and Public Relations Consultants) and provide support for the operating costs of day to day activities carried out by the EITI Secretariat, under the oversight of the MSG. GoU covers the costs of office space and associated utility costs, while the grant will cover the operation costs associated including office supply, travel costs related to the work of the Secretariat and of MSG members, office maintenance, internet, phone, banking charges.

43. While the cost described above will be covered for one year of project implementation, another year of implementation could be financed when additional EGPS financing becomes available to Ukraine. Triggers will be added to the project paper for the completion of specific actions during this phase before financing for the next phase kicks in.

	<i>Activities to be financed under the proposed grant</i>	<i>Trigger for additional financing</i>	<i>Activities to be financed under additional financing</i>
<b>Component A: EITI Implementation</b>	Annual EITI reports for Ukraine  Sub-committees and regional MSG meetings	Contract with Independent administrator is signed.	-Continue sub-committee and regional MSG meetings -Review of the legal and regulatory framework of the extractive industries. -Feasibility study for setting up an integrated government system
<b>Component B: Capacity Building Activities</b>	-Advisory services for state agencies and companies operating in the EI	Contract for training to stakeholders is signed.	- Tailored training for relevant stakeholders  -Training to investigative journalists
<b>Component C: Communication and</b>	- Print and visual media outreach		- Print and visual media outreach

<b>Outreach</b>	<i>campaigns</i> - Organization of awareness raising events - Internet and social media activities		campaigns - Organization of awareness raising events - Internet and social media activities
-----------------	--	--	---

### C. Project Cost and Financing

44. Funding in the amount of US\$ 400,000 will be provided through the proposed EGPS MDTF in the form of a grant. EITI implementation in Ukraine requires very intensive follow-up with over 100 companies reporting. The government of Ukraine has been co-financing EITI implementation and will continue parallel co-financing going forward to cover majority of the operational and staff costs that is not reflected in the table below.

<b>Project Components</b>	<b>Project cost</b>	<b>Grant Financing</b>	<b>% Financing</b>
1. EITI Implementation Support	175,000	175,000	100%
2. Capacity Building Activities	75,000	75,000	100%
3. Communication and Outreach	60,000	60,000	100%
4. Project Management	90,000	90,000	100%
Total Project Costs	400,000	400,000	100%
<b>Total Financing Required</b>	400,000	400,000	

45. An additional financing will be requested when additional funds become available for Ukraine through the EGPS Multi-Donor Trust Fund (MDTF).

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

46. The Government of Ukraine through the Ukraine EITI National Secretariat housed within the Ministry of Energy and Coal Industry (MOECI) will execute the proposed grant. The latter will carry out the activities planned under this project under the authority of the Deputy Minister of MOECI, who leads the MSG. The Ukraine EITI National Secretariat will benefit from the support of the Head of the Department for Operations Reform of Oil and Gas Sector of MOECI and two seasoned staffs from the Department for European Integration and International.

47. The Ukraine EITI National Secretariat was fully staffed in 2015, and the performance of the team is satisfactory. However, the procurement expert and financial management experts have recently resigned from their position and it will be important to recruit new experts without

delay. As a result MOECI is performing the fiduciary functions until new staff is recruited under the proposed grant.

48. The grant proceeds will be used according to the agreed work plan and related procurement plan. An Implementation Manual will be developed to articulate how the operations planned under the proposed project will be undertaken by the Secretariat. The Bank team (based in Washington and Country Office) will provide technical support during implementation, monitor the operational progress, and provide fiduciary oversight/clearances.

49. **Financial Management arrangements:** MOECI will be responsible for financial management and disbursements of this grant. The latter has experience implementing Bank financed projects. The chief accountant of MOECI who has gained considerable experience in implementation of other Bank loans will be responsible for financial management and disbursements under this grant. The Financial Management expert hired by the National Secretariat will facilitate compliance with Bank fiduciary requirements, including preparation of Withdrawal Applications, interim financial reports, financial audits, etc. Accounting records will be retained in the automated accounting system of MOECI, complemented by additional disclosure tables as may be necessary. Semi-annual IFRs comprising the sources and uses of funds, detailed use of funds by each activity, as well as movements and balances in the Designated and Transit account, will be prepared and submitted to the Bank. The grant will undergo annual audits by independent auditor acceptable to the Bank, and the audit reports will be publically disclosed by the Bank and by MOECI.

50. **Disbursement Arrangements:** The grant funds will be disbursed in accordance with the disbursement procedures of the Bank. The Implementing Agency has already opened a Designated Account (DA) with a commercial bank acceptable to IBRD under the previous grant. Withdrawals from the Grant will be made on the basis of Statement of Expenditures (SOEs) for contracts for goods costing less than the equivalent of US\$50,000 and for consulting contracts (individuals or firms) less than the equivalent of US\$100,000. Documentation supporting expenditures claimed against SOEs will be retained by the Implementing Agency and will be available for review during supervision missions.

51. No withdrawal shall be made for payments made prior to the date of the Grant Agreement (GA), except withdrawals up to an aggregate amount not to exceed \$20,000 equivalent may be made for payments made prior to the date of the GA but on or after January 1, 2016 for Eligible Expenditures under the Project.

52. The summary disbursement table is as follows:

Category	Amount financed by MDTF USD \$	% financed by MDTF
----------	-----------------------------------	-----------------------

Goods, non-consulting services, consultants' services, Training and Incremental Operating Costs under the Project	400,000	100%
<b>Totals</b>	<b>400,000</b>	<b>100%</b>

## B. Results Monitoring and Evaluation

53. Monitoring and evaluation will be managed by the EITI National Secretariat. The Results Framework is included in Annex 1 of this Project Paper. The Bank would assist the EITI National Secretariat in tracking performance indicators during regular supervision missions. The EITI Secretariat will also be responsible for overall day-to-day technical supervision of the implementation of the project activities and will benefit from technical input from the MSG to this end.

54. Project monitoring and evaluation will include the following:

- (a) **Status Reports:** With input from the MSG, the EITI National Secretariat will prepare status reports on the implementation of the project activities as part of the terms of the Grant Agreement. These reports must be submitted on a bi-annual basis (June 30, 2016, December 31, 2016, June 30, 2017, and November 30, 2017) to the World Bank. The goal of status reporting is to ensure timely support and feedback from the Government of Ukraine on the activities outlined in the Grant Agreement. These reports will also include the status of the Project Results Framework: PDO and Intermediate Results Indicators, when applicable and as contained in Annex 1.
- (b) **Completion Report:** With input from the MSG, the EITI National Secretariat will also prepare a completion report within six months of grant closing, to ensure that the objectives outlined in the Grant Agreement are met and there is a plan for their sustainable continuation.
- (c) **Financial Statements:** The EITI National Secretariat is required to prepare financial statements and interim financial reports that reflect the operations, resources, and expenditures related to the activities detailed in the Grant Agreement. Periodic, independent auditing of financial statements will be included in the Grant Agreement.

## V. KEY RISKS AND MITIGATION MEASURES

### A. Systematic Operations Risk-rating Tool

Risk category	Rating
<b>1. Political and Governance</b>	H

<b>2. Macroeconomic</b>	L
<b>3. Sector Strategies and Policies</b>	L
<b>4. Technical Design of Project or Program</b>	L
<b>5. Institutional Capacity for Implementation and Sustainability</b>	M
<b>6. Fiduciary</b>	L
<b>7. Environment and Social</b>	L
<b>8. Stakeholders</b>	L
<b>9. Other: Sustainability</b>	M
<b>OVERALL</b>	M

## B. Overall Risk Rating Explanation

55. **Overall risk is rated Moderate due to high political and governance risks, moderate implementation capacity risk and moderate sustainability risk.** The small size of the grant, limited scope of activities and well-conceived concept proven over many years of implementation in other countries, limits substantially the potential risks for this operation. However, even with mitigation measures, given the complex operating environment, three risks categories have been rated Medium or High leading to an overall Moderate risk rating:

- (a) **Institutional Capacity for Implementation and Sustainability.** While MOECI has a good record in implementing Bank-financed projects, the EITI National Secretariat is relatively new. However, the mitigation measures put in place, including targeted trainings and dedicated support staff, should ensure that the grant is appropriately managed and delivers activities listed in the work plan. Additionally, the Bank will provide implementation support including guidance on World Bank Procurement Procedures and advice on drafting of relevant terms of references. It is also important to clarify the responsibilities of the EITI MSG and the EITI National Secretariat in order to ensure that both entities function seamlessly and complement one another. The EITI MSG must function as a high level committee in charge of making policy reviews and decisions which are expected to affect all stakeholders. The MSG should thus include members who are widely recognized as a representative/member of their respective stakeholder groups (including Civil Societies Organizations, Government Officials, State Agencies and sector operators) with the capacity to act on their behalf. The grant will, therefore, include the following mitigation measures: (i) All members of the MSG will be evaluated annually by the Leader of the MSG to continue their membership. The annual evaluation will, among other criteria, consider the quality of participation throughout the implementation of the annual work plan. (ii) As the MSG decides on the EITI work plan and evaluates its execution, MSG members will be ineligible to bid for activities financed under this grant in order to avoid obvious conflict of interest. (iii) EITI Secretariat is the implementing agency. As such, it should perform and be responsible for the procurement, financial and technical management of the activities financed under this grant.

- (b) **Political and Governance.** Another risk to the achievement of project development objective is the ongoing fragile political and security situation. Obtaining data from all extractive companies will be difficult due to the ongoing conflict in the eastern part of Ukraine. The EITI National Secretariat will make best use of resources provided by this Project to obtain data electronically and establish virtual platforms for information and knowledge sharing.
- (c) **Sustainability.** GoU has committed to implementing EITI and to provide the necessary resources to ensure that EITI Reports are produced on time. However, in this initial phase of EITI implementation, GoU has asked for funding support from the EGPS MDTF. There is a moderate risk that funding for the uninterrupted operation of the EITI National Secretariat will not be available once this programmatic approach comes to a close. The Bank will work closely with GoU and other donors in ensuring that adequate resources are made available to ensure satisfactory performance of the EITI National Secretariat.

## **VI. APPRAISAL SUMMARY**

### **A. Economic and Financial Analyses**

56. The proposed project is purely a technical assistance project meant at supporting GoU's efforts to comply with EITI requirements and thereby establish the principles of a sustainable resource management system and enhance transparency in the extractive industries. Therefore, benefits are not easily quantifiable making it difficult to accurately carry out a traditional cost benefit analysis. Instead, a qualitative assessment indicates that the proposed project will have substantial economic benefits to Ukraine as it will improve transparency, accountability and governance in the extractive industries. By enhancing the stakeholders' capacity to comprehend resources management and EITI, the project is also expected to help reach sustainable agreements in the industries and to make these industries better contributors to shared growth and employment.

57. The proposed project also has financial benefits that are sustainable. In the first place, by introducing EITI practices, it will enhance the prospects for attracting renowned investors to invest in upstream oil and gas, and mining, and directly leverage funds towards this end. By supporting GoU's effort to reach EITI compliance, the project will also contribute towards reducing the risk that extractives industries become a curse rather than a blessing as is the case in many resource rich countries.

### **B. Technical Issues**

58. The activities covered in the proposed project are all part of the EITI work plan, which was approved by the Ukraine EITI MSG and the EITI International Secretariat. They are, therefore, consistent with the set of activities traditionally financed by EITI and essential for Ukraine to become an EITI compliant country.



### **C. Financial Management**

59. The fiduciary arrangements will be carried out by the Ukraine National Secretariat housed within MOECI. The Bank performed a simplified financial management assessment of this proposed project in accordance with OP/BP 10.00 and the Financial Management Practice Manual (issued by the Financial Management Sector Board in March 1, 2010). It was concluded that the recipient agency has an adequate financial management system in place that can provide, with reasonable assurance, accurate and timely information on the status of the funds as required by the Bank.

60. Overall, the project is relatively small and has a straightforward design and planned activities. However, to ensure that the required FM arrangements are maintained, most contracts will be prior reviewed by the World Bank. However, the project would allow for direct purchases. The grant will be transferred to a dedicated account.

61. The overall FM risk-rating assigned to this project at appraisal stage is low. The financial management system will monitor the project's financial risk during project implementation.

### **D. Procurement**

62. Procurement of goods and works and selection of consultants shall be conducted in accordance with: (i) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under IBRD Loans and IDA Credits & Grants by WB Borrowers," dated January 2011; (ii) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by WB Borrowers," dated January 2011; and (iii) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006, and revised in January 2011. The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants' Qualifications; (B) Selection of Individual Consultants; and (C) Single-source procedures for the Selection of Individual Consultants. The following method may be used for procurement of goods, works and non-consulting services for those contracts which are specified in the Procurement Plan: Shopping. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

63. Most of the grant funds for this Project, will fund consultant services. There is substantial global experience in the Bank and other EITI Implementing countries with standard requirements and terms of references for similar tasks and, therefore, the procurement work load will be relatively straightforward. In addition, the Ukraine EITI National Secretariat will benefit from the technical support of MOECI and the latter's performance in implementing other Bank-financed projects has been satisfactory.

### **E. Environment and Social (including Safeguards)**

64. The proposed Project is a technical assistance grant of a limited scope with activities that do not have any likely adverse environmental or social impacts. Funding of the EITI Report and training and other capacity building activities are aimed at improving the transparency of

payments and revenues in the extractives sector. Therefore, per OP 4.01 Environmental Assessment, the proposed project is classified as a Category C Project.

#### **F. World Bank Grievance Redress**

65. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex 1: Results Framework and Monitoring

**Country: Ukraine**

**Project Name: SUPPORT TO EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE COMPLIANCE PROCESS PROJECT (P158379)**

### Results Framework

---

#### Project Development Objectives

PDO Statement

The project development objective is to assist Ukraine in implementing its EITI agenda

**These results are at** | Project Level

---

#### Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values										
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target	
Inclusion of Coal and Iron Ore in EITI REporting (Yes/No)	No	Yes	Yes	Yes								Yes
Increased total percentage of revenues reconciled compared to the previous year (Percentage)	80.00	80.00	82.00	85.00								85.00
Increased reporting in the		Yes	Yes	Yes								Yes

media by journalists on EITI and the extractive industries compared to the previous year (Yes/No)											
---	--	--	--	--	--	--	--	--	--	--	--

### Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values									
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
Completion of the scoping study (Yes/No)	No	Yes	Yes	Yes							Yes
Ukraine EITI Reports completed and published in a timely manner (Number)	1.00	2.00	3.00	3.00							3.00
EITI training plan for MSG members, Secretariat staff, and stakeholders adopted and implemented (Yes/No)	No	Yes	Yes	Yes							Yes
Follow up action plans and		Yes	Yes	Yes							Yes

strategies to address EITI recommendations are developed and agreed by MSG annually (Yes/No)											
Percentage of female representation on the MSG (Percentage)		15.00	17.00	20.00							20.00
Number of activities targeted at MSG, CSOs, media and/or parliamentarians (Number)	0.00	2.00	4.00	6.00							6.00

## Indicator Description

### Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Inclusion of Coal and Iron Ore in EITI REporting	The first report did not include the mining sector. The second report and following reports must include the coal, iron ore and other material minerals	Annual	EITI Report	EITI National Secretariat
Increased total percentage of revenues reconciled compared to the previous year	Based on information from the Independent Administrator, evaluation of increased compliance in EITI reporting from state and private companies	Annual	EITI Report	EITI National Secretariat
Increased reporting in the media by journalists on EITI and the extractive industries compared to the previous year	The Communications Officer of the EITI National Secretariat to track stories on EITI and extractive industries on a monthly basis and provide cumulative figures for annual reporting	Annual	Status Report	EITI National Secretariat

### Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Completion of the scoping study	Scoping Study will help determine the minerals that are material and the companies that need to be represented	Annual	Status Report	EITI National Secretariat
Ukraine EITI Reports completed and published in a timely manner	Ukraine EITI report is finalized by the consultant, approved by MSG and published.	Annual	EITI Report	EITI National Secretariat
EITI training plan for MSG members, Secretariat staff, and stakeholders adopted and implemented	MSG members and EITI National Secretariat staff receive various technical training from the EITI International Secretariat, technical Experts, and other	Annual	Status Report	EITI National Secretariat

	EITI national Secretariats			
Follow up action plans and strategies to address EITI reports recommendations are developed and agreed by MSG annually	In response to the findings of EITI Report, MSG develops action items that may include draft proposal for legislative changes, action plans for internal MSG actions, TORs for new studies, etc.	Annual	MSG Meeting Minutes	MOECI
Percentage of female representation on the MSG	EITI National Secretariat to refer to MSG meeting notes and membership to report on this indicator on the status report	Annual	Status Report	EITI National Secretariat
Number of activities targeted at MSG, CSOs, media and/or parliamentarians.	Organization of training and awareness raising events for dissemination of information on EITI in Kyiv and other cities in Ukraine	Annual	Status Report	EITI National Secretariat

## Indicator Description

### Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Inclusion of Coal and Iron Ore in EITI REporting	The first report did not include the mining sector. The second report and following reports must include the coal, iron ore and other material minerals	Annual	EITI Report	EITI National Secretariat
Increased reporting in the media by journalists on EITI and the extractive industries compared to the previous year	The Communications Officer of the EITI National Secretariat to track stories on EITI and extractive industries on a monthly basis and provide cumulative figures for annual reporting	Annual	Status Report	EITI National Secretariat
Increased total percentage of revenues reconciled compared to the previous year	Based on information from the Independent Administrator, evaluation of increased compliance in EITI reporting from state and private companies	Annual	EITI Report	EITI National Secretariat

### Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Completion of the scoping study	Scoping Study will help determine the minerals that are material and the companies that need to be represented	Annual	Status Report	EITI National Secretariat
Number of activities targeted at MSG, CSOs, media and/or parliamentarians.	Organization of training and awareness raising events for dissemination of information on EITI in Kyiv and other cities in Ukraine	Annual	Status Report	EITI National Secretariat
Ukraine EITI Reports completed and published in a timely manner	Ukraine EITI report is finalized by the consultant, approved by MSG and published.	Annual	EITI Report	EITI National Secretariat



EITI training plan for MSG members, Secretariat staff, and stakeholders adopted and implemented	MSG members and EITI National Secretariat staff receive various technical training from the EITI International Secretariat, technical Experts, and other EITI national Secretariats	Annual	Status Report	EITI National Secretariat
Follow up action plans and strategies to address EITI reports recommendations are developed and agreed by MSG annually	In response to the findings of EITI Report, MSG develops action items that may include draft proposal for legislative changes, action plans for internal MSG actions, TORs for new studies, etc.	Annual	MSG Meeting Minutes	MOECI
Percentage of female representation on the MSG	EITI National Secretariat to refer to MSG meeting notes and membership to report on this indicator on the status report	Annual	Status Report	EITI National Secretariat