



Additional Financing Appraisal Environmental and
Social Review Summary
Appraisal Stage
(AF ESRS Appraisal Stage)

Date Prepared/Updated: 07/19/2022 | Report No: ESRSAFA453



The World Bank

Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine (P179456)

BASIC INFORMATION

A. Basic Project Data

Country	Region	Borrower(s)	Implementing Agency(ies)
Ukraine	EUROPE AND CENTRAL ASIA	Ukraine	Ministry of Finance
Project ID	Project Name		
P179456	Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine		
Parent Project ID (if any)	Parent Project Name		
P178946	Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Governance	Investment Project Financing	7/15/2022	8/4/2022

Proposed Development Objective

To contribute to sustaining the government administrative and service delivery capacity to exercise core government functions at the national and regional levels

Financing (in USD Million)	Amount
Current Financing	2042.00
Proposed Additional Financing	0.00
Total Proposed Financing	0.00

B. Is the project 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 [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]



The project provides emergency support to Ukraine in the wake of the war and supports the priority themes under the World Bank Group Strategy for Fragility, Conflict, and Violence (FCV) 2020-2025 (Report No. 146551). In line with the World Bank’s FCV Strategy, the Project focuses on Pillar II “Remaining engaged during conflicts and crisis situations” to build resilience, protect essential institutions and deliver critical services. In addition to mitigating the humanitarian crises and preserving development gains, maintaining core government functions would preserve Ukraine’s institutional capacity for a recovery once the conflict ends. The ongoing war had fundamentally impacted the context for the current Country Partnership Framework FY17-FY21. However, by preserving capacity of the government it contributes to achieving all objectives of the CPF. Preserving government capacity to exercise functions and deliver services also limits negative impact on achievement of the Twin Goals, eliminating extreme poverty and boosting shared prosperity.

D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

The Russian invasion of Ukraine that began on February 24, 2022, has led to an abrupt and severe deterioration in the social, economic, and poverty conditions in the country. Undoing years of development gains, the ongoing war has battered the economy and could push well up to 70 per cent of the population into poverty by end of 2022. The human impact of the war is incalculable, the war is severely straining the public finances. Ensuring the continuity of Ukraine’s government at the central and regional levels is important for ensuring the delivery of basic services. So far, the Ukrainian government is paying salaries to public sector employees, pensions, and social assistance; providing access to basic services including online and where feasible face-to-face schooling, supplying medicines, and restoring access to electricity/water in the areas where the services are disrupted by the war. The parent project that was approved on June 7, 2022 provides emergency support to Ukraine in the wake of the war and supports the priority themes under World Bank Group Strategy for Fragility, Conflict, and Violence (FCV) 2020-2025 (Report No. 146551). In line with the World Bank’s FCV Strategy, the Project focuses on Pillar II “Remaining engaged during conflicts and crisis situations” to build resilience, protect essential institutions and deliver critical services. In addition to mitigating the humanitarian crises and preserving development gains, maintaining core government functions would preserve Ukraine’s institutional capacity for a recovery once the war ends. Basic education services, one of the essential core functions of government, continue during the war. Basic education services are carried out by teachers and other education staff assigned to local schools and despite displacement of students and teaching staff, the Government is committed to ensuring continuity of teachers’ salary payments.

The First AF approved on June 22, 2022 expanded the amount of support provided through the parent project to the wage bill of non-security sector government employees and school employees (mainly public administration and education services), who are integral for ensuring continuity of core government services and preventing further erosion of learning outcomes through financing of up to 100 percent of the government and school employees wage bill in the coming several months. Salaries are only paid to existing filled positions and only to sectors and roles that are vital for core public and educational services and that are not related to security operations. The risks directly associated with the provision of salaries are therefore minimal.

The project contributes to advancing the humanitarian-development-peace nexus by filling a critical gap in emergency response. This second AF will expand this support of the Project to cover pensions, social payments and healthcare

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services that are essential to mitigate the social and economic impact of the war, thus scaling up the parent project and AF's support to the PDO. The Second AF will partially cover the following government expenditures during March-August 2022:

(i) Pensions. The project will support the part of pension payments that is funded by transfers from the central government budget. The transfer from the budget to the Pension Fund includes pension top ups for disabled, pensioners who have dependent children, disabled war veterans, families of deceased war veterans, those who suffered from the Chernobyl catastrophe, miners, compensation for lower social security payment from the simplified tax system, and compensation for pensioners who receive less than a minimum pension. The overall amount of budget transfer to the Pension Fund is estimated to be at one third of the overall pension bill and as explained above, mainly funds the most vulnerable pensioners. 78% of all pension payments are channeled through the system of commercial banks, with 100 percent of such payments directed to beneficiary accounts. The remaining 22% of all benefit payments are managed by the government postal service Ukrposhta, often as a home delivery service to the incapacitated beneficiaries. Given the security situation in several regions, the Government introduced an arrangement whereby for pensioners who receive pensions using Ukrposhta services and who remained in the territories that are occupied, surrounded, or endangered by active military hostilities (where Ukrposhta has no technical ability to deliver pensions), the entire amount of pension will be deposited to accounts opened in a designated bank by the Pension Fund on behalf of pensioners. Pensioners can claim pensions in the bank on the government-controlled territory by presenting a passport and a certificate with a tax number. If a pensioner does not claim funds in the bank during six months, the entire amount of the pension is returned to Pension Fund and is accounted as pension due to be paid. A pensioner can request the Pension Fund to resume paying pension through either Ukrposhta or a commercial bank at any point of time following regular procedures.

(ii) Social assistance. The Second AF will support payment of GMI, HUS and programs providing social assistance to the disabled, as well as the program for IDPs. The AF will cover up to 100 percent of the government expenditures for these programs during March-August 2022.

(iii) Healthcare. The Second AF will partially cover the central government expenditures on PMG during March-August 2022, supporting health service delivery in Ukraine. The share of PMG payments that covers wages of healthcare workers will be reimbursed under the Second AF.

(iv) First Responders. The Second AF will cover the salaries of the First Responders. First Responders in Ukraine are part of the State Emergency Service, a central government agency coordinating its work with and reporting to the Minister of Internal Affairs. The main task of SES is the implementation of state policy on civil protection and protection of the public and territories from emergencies. It performs a very wide range of activities. They include firefighting, response to man-made and industrial accidents and natural disasters, search and rescue activities, evacuation of the public from areas affected by accidents, disasters, and emergency situations, and humanitarian demining. During the war, their activities are still focused on the protection and rescue of the civilian population. The SES is not involved in any military activities and its employees are not considered to be combatants.

However, since the salaries, social assistance and pensions are to be disbursed during a period of active military hostility, and since civil servants, first responders, healthcare, social assistance and educational workers may be paid to perform their functions in areas where public health, safety and security are severely compromised, preventative measures should be taken that are within the control of the civil service to ensure transparency of salary payment,



access to grievance redress, and guidance to maintain occupational health and safety and prevent harmful labor. It does so by addressing immediate needs to ensure continuity of the Government and services delivery/ social payments and providing needed resources to avoid deterioration of public institutions.

D. 2. Borrower’s Institutional Capacity

The Implementing Agency for the project is Ministry of Finance of Ukraine that will monitor monthly on-time payments to civil servants and number of civil servants who were paid. The International Cooperation Department of the MoF (ICD MoF) will provide reports based on the Treasury Data, which the World Bank team will review and confirm fulfillment of PBC. The MoF does not have direct experience working with the World Bank Environmental and Social Standards (ESSs) and designated environmental and social development personnel to oversee the preparation and implementation of the required ES instruments at this stage. All ES responsibilities for the investment projects in Ukrainian portfolio by the Bank were delegated to other governmental agencies-implementing agencies for the projects with MoF being in the coordination role as the Borrower's Representative. However, MoF ICD staff has completed ESF Deep Dive in June 2021 and attended various capacity building ES workshops by Bank's ES regional team, therefore have an understanding of the stakeholder engagement practices, vitality of grievance redress mechanism and relevant labor conditions. The designated GRM Focal Point for the parent project has been appointed at the MoF that ensures provisions outlined in project SEP and ESCP are being established and monitored regularly. The Bank's ES team provides continues support, extensive supervision and on the job training to the ICD MoF during the project preparation and implementation. The Borrower’s performance on E&S requirements implementation will be assessed by the Bank on a regular basis, informed by project reports and during implementation support missions.

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

A. Environmental and Social Risk Classification (ESRC) Substantial

Environmental Risk Rating Moderate

The AF will not support physical works or envisage any other kind of activities that may cause direct or indirect environmental impacts. The environmental rating is moderate given potential for community and worker health and safety incidents during the delivery of the social services supported by the AF and associated risks and impact.

Social Risk Rating Substantial

The activities supported by the Project are not expected to have any direct adverse social risks or impacts but they take place within a highly volatile context beyond the immediate control of the implementing agency. The proposed AF will introduce additional types of expenditures in the parent project and will update the economic, financial and technical analysis and results framework to fully reflect the impact of the new activities. The proposed AF will support Guaranteed Minimum Income (GMI) program, which is Ukraine's anti-poverty program that provides monthly benefits to the poor families with children, calculated as the difference between the Subsistence Minimum for a family and monthly family income. The House Utility Subsidy program is the largest means-tested program, which provides financial support for the payment of utility bills by capping how much households spend to cover a normative amount of consumption. Among other activities supported by the AF is social assistance for the disabled since childhood and children with disability under 18 years old, social assistance for the IDP’s, pensions payments first

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responded payroll. The proposed AF will partially cover the PMG by reimbursing the health workers' wage bill to sustain Government expenditures for the delivery of guaranteed health services to the population. The scale up of the original project by introducing additional types of expenditures results in substantial social risks arising from potential safety and health incidents associated with exposure to the war and aerial bombardment during delivery of services. The original project provided funding to the wage bill of non-security sector government employees and school employees who are integral for ensuring continuity of core government services (mainly public administration and education services) and preventing erosion of learning outcomes. The additional funding will expand this support to cover pensions, social payments and health services that are essential to mitigate the social and economic impact of the war. The social risk is substantial given the potential for community and worker health and safety incidents during the delivery of the social services supported by the AF and associated risks and impacts. Some services will require participants to attend in person activities and would require essential workers to staff their places of employment or conduct outreach activities potentially increasing their risk of exposure to attack, especially in eastern parts of the country. This contextual risk also increases the likelihood that vulnerable groups and individuals who may be eligible to receive such services do not seek them out for fear of exposure to war fighting and bombing. These are highly contextual and beyond the immediate control of the project and not caused by the activities supported by the bank financing. Preventative measures for the newly introduced AF activities under emergency conditions will be described in the project's Environmental and Social Commitment Plan (ESCP) and Project Operations Manual (POM). These include principles for information disclosure and consultation, and grievance redress mechanism. The Stakeholder Engagement Plan (SEP) for the project will be revised to define principles for information disclosure and opportunity for feedback and access to redress for complaints and concerns for newly introduced AF supported activities.

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

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The proposed project is to ensure the continuity of core government functions by financing the wage bill for government employees in the public administration, healthcare and education sector, first responders and healthcare payroll as well as provide social assistance payments, IDP support and pensions.

Disbursement of financing will go through a Single Treasury Account hosted by the State Treasury Service, International Cooperation Department of the MoF will provide reports. No physical works or technical activities will be undertaken as part of the project and the finances will be disbursed into a network of salary payments, social assistance programs and pensions.

Environmental and social risks and impacts assessed for this operation are highly contextual, in that the financing is being disbursed during an active combat situation and civil servants who are enabled to perform their core functions as a result of the provision of salaries may be doing so under situations of extreme vulnerability and insecurity, social assistance payments continue to sustain most vulnerable groups including IDP's and elderly. Whilst provision of salaries and social assistance payments does not directly pose or contribute to risks or impacts associated with civil service and service payments delivery in peacetime or in war, the extreme volatility of the situation means that there is some risk that salaries, social assistance payments, pensions are not paid on time or that financing is diverted for



other purposes. A negative list of sectors and roles that are not eligible for payroll support will be developed to ensure that only non-security functions are provided for.

There is potential for community and worker health and safety incidents during the delivery of the social services supported by the AF and associated risks and impacts. Some services will require participants to attend in person activities and would require essential workers to staff their places of employment or conduct outreach activities potentially increasing their risk of exposure to attack, especially in eastern parts of the country. 78% of all pension payments are channeled through the system of commercial banks, with 100 percent of such payments directed to beneficiary accounts. The remaining 22% of all benefit payments are managed by the government postal service Ukrposhta, often as a home delivery service to the incapacitated beneficiaries. Given the security situation in several regions, the Government introduced an arrangement whereby for pensioners who receive pensions using Ukrposhta services and who remained in the territories that are occupied, surrounded, or endangered by active military hostilities (where Ukrposhta has no technical ability to deliver pensions), the entire amount of pension will be deposited to accounts opened in a designated bank by the Pension Fund on behalf of pensioners. Pensioners can claim pensions in the bank on the government-controlled territory by presenting a passport and a certificate with a tax number. If a pensioner does not claim funds in the bank during six months, the entire amount of the pension is returned to Pension Fund and is accounted as pension due to be paid. A pensioner can request the Pension Fund to resume paying pension through either Ukrposhta or a commercial bank at any point of time following regular procedures.

This contextual risk also increases the likelihood that vulnerable groups and individuals who may be eligible to receive such services do not seek them out for fear of exposure to war fighting and bombing.

An Environmental and Social Commitment Plan (ESCP) will be prepared, disclosed and consulted on describing preventative measures to be further elaborated in the Project Operations Manual (POM). These measures will include a brief Stakeholder Engagement Plan, analyzing affected and interested stakeholder needs and laying out principles for information disclosure and opportunity for feedback and access to redress for complaints and concerns associated with the disbursement of salaries.

ESS10 Stakeholder Engagement and Information Disclosure

The Project is expected to bring social benefits by supporting to cover civil servants, educational staff, first responders and healthcare workers payroll, pensions, social payments and health services that are essential to mitigate the social and economic impact of the war. Preventative measures able to be actioned by a civil service under emergency conditions will be described in the project's Environmental and Social Commitment Plan (ESCP) and Project Operations Manual (POM). These include principles for information disclosure and consultation, and grievance redress for the purpose of maintaining transparency in payroll distribution, and monitoring and reporting by designated environmental and social focal points. A negative list of sectors and roles that are not eligible for payroll support will be developed to ensure that only non-security functions are provided for. A Stakeholder Engagement Plan, analyzing affected and interested stakeholder needs and laying out principles for information disclosure and opportunity for feedback and access to redress for complaints and concerns associated with the disbursement of salaries, social assistance programs and pensions has been prepared and included within the project's ESCP. Further steps of stakeholder engagement activities including establishment of the multi-channel, accessible project GRM are to be described in the POM. SEP has been disclosed at the official MoF website and updated during the course of the project implementation. Accessible grievance mechanism for the project is being



established, publicized, maintained and operated in a transparent manner that is culturally appropriate and 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. It will enable stakeholders to channel concerns, questions, and complaints to the MoF ICD (and, where necessary, to other actors at the local level). A separate channel for confidential reporting for SEA/SH and gender-based violence (GBV) complaints will also be developed and presented as part of the section on GRM in the SEP. SEP that has been prepared and disclosed in country by the Client will also cover Second AF activities and introduce additional grievance channels and awareness building communication strategy. The current state of martial law and war fighting contexts means that there are extremely limited engagement and consultation options. It is inadvisable to encourage large in-person meetings of local stakeholders due to risk of aerial bombardment and virtual consultations will only reach a limited number of representative stakeholders.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

The project will involve the provision of payments in the form of wages for core public services, pensions and cash delivery for vulnerable groups under existing state programs. This involves a continuation of existing services by civil servants and others who are working in connection with these programmes but not hired directly by the implementing agency. These workers will continued to be covered under the conditions of their existing contractual arrangements. There is potential for safety incidents due to the indiscriminate or targeted aerial attacks during the delivery of the welfare and pension payments supported by the AF and associated risks and impacts. Some services will require participants to attend in person activities and would require essential workers to staff their places of employment or conduct outreach activities potentially increasing their risk of exposure to attack, especially in eastern parts of the country. 78% of all pension payments are channeled through the system of commercial banks, with 100 percent of such payments directed to beneficiary accounts. The remaining 22% of all benefit payments are managed by the government postal service Ukrposhta, often as a home delivery service to the incapacitated beneficiaries. There continues to be a threat of a missile attack across the entire country. The country established national “Air raid alarm” alert transmitted by Ukraine’s National warning system in the case of an emergency caused by a military attack. It automatically transmits the message to evacuate to the nearest shelters.

Ukraine's Labor Code includes measures on equal opportunity and non-discrimination, regulates hiring and firing procedures, allows for collective organization and bargaining; Given the extraordinary circumstances, principles for protecting against harmful labor and ensuring occupational health and safety will be described in the ESCP, including ensuring access to service providers responding to sensitive incidents such as those related to Sexual Exploitation and Abuse/Sexual Harassment and other forms of violence that may be associated with the invasion context. Labor risks will be addressed through the Client’s commitment in the ESCP and clear guidance provided in the POM to comply with the relevant requirements of ESS2.

ESS3 Resource Efficiency and Pollution Prevention and Management

This standard is not relevant. Activities proposed under the project will not pose risks associated with resource efficiency or pollution.



ESS4 Community Health and Safety

There continues to be a threat of a missile attack across the entire country. There is potential for safety incidents due to the indiscriminate or targeted aerial attacks during the delivery of the social services supported by the AF and associated risks and impacts. Some services will require participants to attend in person activities and would require essential workers to staff their places of employment or conduct outreach activities potentially increasing their risk of exposure to attack. Emergency preparedness measures in response to community health and safety risks associated with the operating context including measures to promote community awareness will be described in the ESCP and included in the POM. In any war fighting context risk of SEA/SH and other forms of gender-based violence is heightened. In Ukraine SEA/SH has been documented as a weapon of war by invading soldiers and is most likely a risk in the immediate combat areas. It is unlikely to be directly associated with project financed activities. Information on availability of survivor-centric SEA/SH services available in country will be included in the POM.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

This standard is not relevant. Activities proposed under the project will not require land acquisition, restrictions on land use or involuntary resettlement.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This standard is not relevant. Activities proposed under the project will not pose risks to protected areas, natural habitats or involve primary production of natural resources.

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

This standard is not relevant. No indigenous peoples who meet the definition of this standard reside in the territory of Ukraine.

ESS8 Cultural Heritage

This standard is not relevant. Activities proposed under the project will not pose risks to tangible or intangible cultural heritage.

ESS9 Financial Intermediaries

This standard is not relevant. Activities proposed under the project will not involve financial intermediation.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

No

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OP 7.60 Projects in Disputed Areas

No

B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts

Is this project being prepared for use of Borrower Framework?

No

Areas where “Use of Borrower Framework” is being considered:

N/A

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Ukraine

Implementing Agency(ies)

Implementing Agency: Ministry of Finance

V. FOR MORE INFORMATION CONTACT

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The World Bank

Additional Financing for Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine
(P179456)

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VI. APPROVAL

Task Team Leader(s):	Ana Bellver Vazquez-Dodero, Karlis Smits, Oleksii Balabushko
Practice Manager (ENR/Social)	Alexandra C. Bezeredi Cleared on 15-Jul-2022 at 18:31:6 GMT-04:00
Safeguards Advisor ESSA	Abdoulaye Gadiere (SAESSA) Concurred on 19-Jul-2022 at 16:45:23 GMT-04:00