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Report No: 84672-UA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF

US$300.00 MILLION

TO

UKRAINE

FOR A

SOCIAL SAFETY NETS MODERNIZATION PROJECT (P128344)

JUNE 10, 2014

Human Development Sector Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective June 10, 2014)

Currency Unit	=	1 UAH
11.8 UAH	=	US$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACU	Accounting Chamber of Ukraine
COM	Cabinet of Ministers
DLI	Disbursement-linked Indicators
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
ECAPDEV	ECA Capacity Development Trust Fund
EFC	Error, fraud and corruption
EEP	Eligible Expenditures Program
EMF	Environmental Management Framework
EMP	Environmental Management Plan
EU	European Union
FM	Financial Management
GDP	Gross Domestic Product
GMI	Guaranteed Minimum Income
GoU	Government of Ukraine
HBS	Household Budget Survey
HUS	Housing and Utility Services
IASSPP	Information and Analytical System for Social Protection of Population
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IPF	Investment Project Financing
IMF	International Monetary Fund
LWO	Local Welfare Office(s)
MIS	Management Information System
MoEDT	Ministry of Economic Development and Trade of Ukraine
MoF	Ministry of Finance of Ukraine
MoSP	Ministry of Social Policy of Ukraine
NBU	National Bank of Ukraine
NEETDP	Work-able adults that are not in employment, education, training, disabled or receiving pension.
NGO	Non-governmental organization
OECD	Organization for Economic Co-operation and Development
OSA	Oblast State Administration
PDO	Project Development Objective(s)
PHRD	Japan Policy and Human Resources Development
PMG	Project Management Group

POM	Project Operational Manual
PP	Procurement Plan
PPG	Project Preparation Grant
RBF	Results-based financing
SA	Social Assistance
SASMP	Social Assistance System Modernization Project
SIDA	Swedish International Development Cooperation Agency
SM	Subsistence Minimum
SSN	Social Safety Nets
TA	Technical Assistance
TTL	Task Team Leader
UAH	Ukrainian hryvnia
USIF	Ukraine Social Investment Fund
UNICEF	United Nations Children's Fund

Regional Vice President:	Laura Tuck
Country Director:	Qimiao Fan
Acting Sector Director:	Alberto Rodriguez
Sector Manager:	Andrew D. Mason
Task Team Leaders:	Katerina Petrina; Emil Tesliuc

UKRAINE
SOCIAL SAFETY NETS MODERNIZATION PROJECT (P128344)

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PAD DATA SHEET

Ukraine

Social Safety Nets Modernization Project (P128344)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

ECSH3

Basic Information			
Project ID: P128344	EA Category B - Partial Assessment	Team Leader Katerina Petrina	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 01-Oct-2014	Project Implementation End Date 01-Oct-2020		
Expected Effectiveness Date: 01-Oct-2014	Expected Closing Date: 01-Oct-2020		
Joint IFC: No			

Sector Manager	Acting Sector Director	Country Director	Regional Vice President
Andrew D. Mason	Alberto Rodriguez	Qimiao Fan	Laura Tuck

Borrower: Ukraine			
Responsible Agency: Ministry of Social Policy of Ukraine			
Contact:	Vitaliy Mushchinin	Title:	First Deputy Minister
Telephone No.:	380442262639	Email:	info@mlsp.gov.ua

Project Financing Data(in USD Million)					
[X]	Loan	[ ]	Grant	[ ]	Guarantee
[ ]	Credit	[ ]	IDA Grant	[ ]	Other

Total Project Cost:	300.00	Total Bank Financing:	300.00
Financing Gap:	0.00		

Financing Source	**Amount**
Borrower	7,000.00
International Bank for Reconstruction and Development	300.00
Total	7,300.00

Expected Disbursements (in USD Million)									
Fiscal Year	2015	2016	2017	2018	2019	2020	2021		
Annual	20.00	45.00	60.00	45.00	35.00	60.00	25.00		
Cumulative	20.00	80.00	115.00	160.00	235.00	275.00	300.00		

Proposed Development Objective(s)

The Project's Development Objective is to improve the performance of Ukraine's social assistance and social services system for low-income families. The Project Development Objective would be achieved by:

- Expanding the GMI program to increase access of the extreme poor to a last-resort poverty reduction program;
- Supporting measures for more efficient administration of social benefits and services through: (a) strengthening performance management to be supported by the national management information system (MIS); (b) streamlining oversight and control procedures under a central unit for social inspection, and (c) integrating data on benefits and services into a single MIS for all local offices under Ministry of Social Policy's (MoSP) subordination; and
- Designing and implementing a full range of social welfare services aimed at vulnerable children in four selected oblasts, from prevention to quality of service delivery and deinstitutionalization of children.

Components

Component Name	Cost (USD Millions)
Component 1. Improving Social Assistance Provision to the Most Vulnerable	200.00
Component 2. Supportive Investments for Institutional Strengthening for Administration of Social Assistance and Social Services	80.00
Component 3 Supportive Investments for Increasing Provision of Family-based Care to support orphans, children deprived of parental care, disabled children and vulnerable families in four oblasts	20.00

Institutional Data

Sector Board

Social Protection

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Health and other social services	Other social services	80		
Public administration, law, and justice	Central government administration	20		

Total	100
☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.	

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Social protection and risk management	Social safety nets	60
Social development/gender/inclusion	Other social development	20
Social protection and risk management	Other social protection and risk management	20
Total		100

Compliance

Policy

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]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
LA: Covenant 1 on Institutional Arrangements for Project Execution	X		

1. The Borrower shall:

(a) be responsible for the overall implementation of the Project through its MoSP and shall ensure that the Project is carried out in accordance with the procedures set forth in the Project Operational Manual (POM) and shall ensure that the POM is not amended, suspended, abrogated, repealed and that no provision of the POM is waived, without prior approval of the Bank;

(b) through MoSP, and other relevant governmental institutions in its subordination and/or coordination, carry out the agreed activities in order to achieve the agreed results of the Project;

(c) through the MoSP, maintain the Project Management Group (PMG) within MoSP throughout the duration of the Project, in a form and with functions, staffing (including consultants) (under terms of reference, qualifications and scope of responsibilities) and adequate resources, all satisfactory to the Bank and as further set forth in the POM; the PMG shall be responsible for taking strategic decisions, guiding Project implementation and day to day implementation of the Project (except for the responsibilities to be carried out by Ukraine Social Investment Fund (USIF) under the Project as set forth in paragraph (d) below;

(d) (i) through the MoSP, make funds required for implementation of Part 3 of the Project available to USIF through state budget allocation, in accordance with the Borrower's applicable laws and regulations; (ii) enter into and maintain the Administrative Agreement throughout Project implementation (iii) cause USIF to update the USIF Manual, and to maintain USIF, during Project implementation, with a management structure and in a form and with functions, staffing (including consultants), (under terms of reference, qualifications and scope of responsibilities) and resources, all adequate for project implementation and satisfactory to the Bank; (iii) cause USIF to be responsible for all financial management, procurement and environmental and social compliance functions for the civil works for social facilities under Part 3 of the Project, in particular, administering the proceeds of the Loan, procurement of goods, works and services, managing all financial management aspects related to such investments, making payments to suppliers, and ensuring screening for, and compliance with, environmental and social safeguards; and (iv) cause USIF to carry out such activities in accordance with the POM, the Environmental Management Framework (EMF), and any site-specific Environmental Management Plans (EMPs), the USIF Manual, the Administrative Agreement and the World Bank Anti-Corruption Guidelines.

2. During Project implementation the Borrower shall cause the Accounting Chamber of Ukraine (ACU), or such other entity, acceptable to the Bank, as the Bank may agree, to carry out, in a manner satisfactory to the Bank, performance audits of the Project, covering *inter alia*: (i) an evaluation that eligibility criteria are correctly applied and determination of whether GMI Program benefit funding reaches the intended beneficiary population; (ii) assessment of program administration, oversight and control, including assessment of mechanisms for monitoring and evaluation, control, institutional responsibilities and capacity, including staffing, of internal controls in the social assistance system, including efficiency of error and fraud control function, adequacy of measuring and reporting on monitoring indicators and disbursement-linked indicators (DLIs); (iii) testing of the robustness of internal controls, integrity of fund accountability processes and effectiveness of risk management and oversight arrangements for the entire Project; and (iv) such other matters set forth in the terms of reference for such audit, as agreed with the Bank. In addition, the final performance audit shall include an audit of the automated social assistance information system by determining whether the system is safeguarding assets, maintaining data integrity, and operating effectively to achieve the organizational goals and objective.

3. The first performance audit shall cover the first fiscal year of Project implementation, as agreed with the Bank, and thereafter, performance audits shall cover every two fiscal years of Project implementation. The Borrower shall ensure that the performance audit reports are furnished to the Bank not later than six (6)

months after the end of each respective audit period.

4. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of two fiscal years of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

5. Notwithstanding the above, the Bank may, if it deems necessary, request the Borrower to furnish annual audits of the Financial Statements. Such annual audits of the Financial Statements shall be furnished to the Bank not later than six (6) months after the date of the Bank's request.

Name	Recurrent	Due Date	Frequency
LA: Covenant 2 on Investments in Social Facilities	**X**		

1. The Borrower, through MoSP, shall cause USIF to screen and evaluate investment proposals for civil works for social facilities under Part 3 of the Project, all in accordance with eligibility criteria, selection methods and procedures acceptable to the Bank, as further set forth in the POM.

2. The Borrower, through MoSP, shall:

(a) enter into, and maintain throughout Project implementation, memoranda of understanding with each selected oblast for the purpose of causing such oblast to be responsible for supervision of the respective investment;

(b) ensure that USIF remains responsible for all financial management, procurement and environmental and social compliance functions for the civil works of each investment, in particular, administering the proceeds of the Loan, procurement of goods, works and services, managing all financial management aspects related to such investments, making payments to suppliers, and ensuring screening for, and compliance with, environmental and social safeguards.

Name	Recurrent	Due Date	Frequency
LA: Covenant 3 on Environmental and Social Safeguards	**X**		

The Borrower shall ensure, and cause USIF to ensure, that Project activities are carried out in accordance with the EMF, and any site specific EMPs, including the guidelines, rules and procedures defined in said instruments. To that end, the Borrower shall ensure, and shall cause USIF to ensure, that the following actions are taken in a manner acceptable to the Bank:

(a) if an Environmental Management Plan would be required for any Project activity or investment on the basis of the EMF: (i) such EMP shall be prepared in accordance with the requirements of the EMF, disclosed locally and furnished to the Bank; (ii) adequate and meaningful consultations shall be carried out on said EMP; and (iii) activities or investment shall be carried out in accordance with such EMP;

(b) no works shall be commenced on any site until all measures required to be taken under the EMP prior to the initiation of said works have been taken.

The Borrower shall ensure that no works under the Project involve the involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, or involving the involuntary restriction of access to legally designated parks and protected areas according to

the Bank's policy on "Involuntary Resettlement".			
Name	**Recurrent**	**Due Date**	**Frequency**
LA: Covenant 4 on Review by the Bank of Procurement Decisions	**X**		

The Borrower shall:

(a) No later than December 31 of every year during implementation of the Project, beginning on December 31, 2014, prepare and furnish to the Bank a procurement progress report (Procurement Progress Report), in form and substance acceptable to the Bank, which shall include, *inter alia*: (i) a description of issues arising during the full procurement cycle under the Project, from design through planning, bidding, contract implementation and completion; (ii) a list of proposed measures and actions to be taken to resolve the issues identified under (i) above; and (iii) a proposed timeline for the implementation of the said measures and actions.

(b) No later than January 31 of every year during implementation of the Project, beginning on January 31, 2015, exchange views with the Bank on the results of the Procurement Progress Report completed for the Borrower's previous calendar year and thereafter implement such recommended measures, as agreed with the Bank.

Name	**Recurrent**	**Due Date**	**Frequency**
LA: Covenant 5 on Withdrawal Condition	X		

Description of Covenant

If, at any time, the Bank determines that any portion of the amounts disbursed by the Bank to the Borrower under Category (1) was: (a) made for reimbursement of expenditures which are not eligible under the Eligible Expenditure Program (EEP); or (b) not in compliance with the provisions of Section IV.B.2 (a) and the provisions of the POM, the Borrower shall promptly refund any such amount to the Bank as the Bank shall specify by notice to the Borrower.

Conditions

Name	**Type**
Project Operational Manual	Effectiveness Condition

Description of Condition

The Borrower, through MoSP, has adopted the POM, satisfactory to the Bank

Name	**Type**
Withdrawal Conditions	Disbursement Condition

Description of Condition

No withdrawal shall be made:

(a) for payments under Category (1) (i.e. payments under the EEP) with respect to each tranche, for which a withdrawal request has been submitted, unless the Borrower, through MoSP, has submitted evidence satisfactory to the Bank that payments under the EEP have been made to eligible beneficiaries by the Borrower in accordance and in compliance with the procedures set forth in the Borrower's applicable laws and regulations;

(b) for payments under Category (2), unless the Borrower, through MoSP, and USIF have executed the Administrative Agreement, satisfactory to the Bank regulating (i) the responsibilities of USIF in Project implementation; and (ii) payment procedures through the Borrower's State Treasury.

Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Emil Daniel Tesliuc	Senior Economist	Senior Economist	ECSH3
Irina Shmeliova	Procurement Specialist	Procurement	ECSO2
Katerina Petrina	Sr Social Protection Specialist	Team Leader	ECSH3
Dmytro Derkach	Communications Officer	Communications Officer	ECCUA
Anna Goodman	Program Assistant	Program Assistant	ECSHD
Rajeev Kumar Swami	Sr Financial Management Specialist	Sr Financial Management Specialist	ECSO3
Moses Wasike	Sr Financial Management Specialist	Sr Financial Management Specialist	ECSO3
Olha Nychay	Consultant	Social Protection Specialist	ECSH3
Oksana Martsenyuk-Kukharuk	Consultant	Operations Analyst	ECSH3
Penelope Jane Aske Williams	Senior Operations Officer	Senior Operations Officer	ECSH3
Vlad Alexandru Grigoras	E T Consultant	E T Consultant	ECSH3
Irina Babich	Financial Management Specialist	Financial Management Specialist	ECSO3
Julie Rieger	Senior Counsel	Senior Counsel	LEGLE
Maiada Mahmoud Abdel Fattah Kassem	Finance Officer	Disbursement	CTRLA
Jasna Mestnik	Finance Officer	Disbursement	CTRLA
Oleksandra Griaznova	Team Assistant	Team Assistant	ECCUA

I. STRATEGIC CONTEXT

A. Country Context

1. **A weak external environment, delayed structural reforms, and poor macroeconomic management have led to stagnation of Ukrainian economy.** In 2009, Ukraine experienced a 14.8 percent decline in GDP and has not yet recovered. After recovering somewhat over 2010-11, GDP growth remained flat around 0 percent over 2012-13. Economic stagnation was accompanied by an accumulation of unsustainable fiscal and external imbalances. The general government deficit – including the deficit of the state energy company, Naftogaz – reached 6.7 percent of GDP in 2013. Macroeconomic stabilization would require tightening Ukraine's fiscal policy, complemented with structural reforms to boost long-term economic growth.

2. **About 9 percent of the population is considered poor by national standards. Ukraine uses multiple poverty measures[1].** According to the relative definition of poverty, about a quarter of the population was poor during 2010-2012. About 11 percent was living in extreme poverty, which is also the commonly used domestic definition of poverty. Only 2.3 percent of the population was living below $5 in PPP terms per adult equivalent per day in 2012, or the international absolute poverty line for the ECA region. Income inequality is among the lowest in the ECA region, with a Gini index of 24.3 during 2011-2012.

3. **In Ukraine, as in other countries of the ECA region, women are disproportionately represented in lower paid occupations,** such as sales services, social sector, education and health. The unadjusted monthly earnings gender wage gap is 22 percent (UNECE 2010), which is similar to other ECA region countries, but higher than the EU average. The number of firms with female managers is 28 percent - higher than the average of countries in the same income group. Approximately 52 percent of households in poverty are headed by females.

4. **After extensive political turmoil, a new government took office in end-February 2014 and embarked on an ambitious reform program to stabilize the economy.** The authorities switched to a flexible exchange rate regime and resorted to fiscal consolidation. To enhance shared prosperity and protect gains made in reducing poverty the authorities refocused their attention on the importance of a well-functioning social assistance system to protect the poor. Although Ukraine spends generously on social assistance programs, overall effectiveness of the social assistance system is moderate. Most social assistance programs are categorical, while coverage of the means-tested programs is low. An efficient and effective social protection system is essential, given the nature and potential impact of important structural reforms. Having a larger last-resort income program in place could assist in cushioning the impact of structural reforms, as well as responding quickly in times of crisis.

5. **The new Government also indicated its readiness to implement reforms in the energy sector accompanied by a new targeted program to compensate for increases in gas and heating bills among the poorest 30 percent of the population.** However, given that the new program is intended only as a short-term fix to mitigate the immediate shock of tariff increases during the upcoming heating season, sustainable protection for poor and vulnerable families over the medium term will require further consolidation and rationalization of existing (untargeted) programs (and overall spending on safety nets),

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[1] Four million people are considered poor based on equalized total income below the Subsistence Minimum (absolute poverty line) that was set in 2012 at 1042.4 UAH per adult equivalent per month. Relative poverty is measured as percentage of individuals with total expenditures per adult equivalent below 75% of the median. Extreme relative poverty is measured as percentage of individuals with total expenditures per adult equivalent below 60 percent of the median.

combined with an increase in the coverage of the means-tested Guaranteed Minimum Income (GMI), which should become the main vehicle to deliver transfers to the poor.

B. Sectoral and Institutional Context

Sectoral Context

6. **Ukraine operates a complex social assistance system that redistributes a large share of GDP.** By 2012, spending on social assistance programs accounted for about 3.3 percent of GDP, placing Ukraine among the higher spending countries in the ECA region.[2] However, targeting accuracy of social assistance spending in Ukraine is relatively low, due to a preference for categorical programs. Only 43.2 percent of Ukraine's social safety nets reached the poorest quintile[3] in 2012. Similar to a number of other countries in the region (Bulgaria, Croatia, and Romania), a contraction over time of income-tested programs was due to a preference for programs that transfer money to a broad income spectrum, and not due to difficulties in identifying the poor.

7. **The country operates 16 major social assistance programs with the vast majority of these programs focused on broad categorical groups**, **which reduces the efficiency of social assistance spending in reducing poverty**. These include programs targeted at families with children or foster families, persons with disabilities, elderly without contributory pensions, privileged citizens, or households with a high relative cost of their heating and utility bill. Only two programs, the Guaranteed Minimum Income, or GMI program, and a small fraction of child benefits target low-income households based on a means test.

8. **Coverage of the GMI program has eroded.** In 2005, GMI covered about 4 percent of the population, but by 2012, only 0.9 percent was covered.[4] Stricter eligibility criteria resulted in fewer qualifying households and lower benefit levels. The share of the GMI program in GDP fell from 0.27 percent in 2005 to 0.08 percent during 2009-2011. As a result of lower coverage, the impact of the GMI program on reducing poverty has deteriorated. This trend was reversed in 2012, in response to a slowing economy, when GMI eligibility thresholds were revised upwards over and above inflation. By 2013, 1.3 percent of the population was covered by the GMI.

9. **The Government intends to expand the GMI program and transform it into an effective and efficient poverty reduction program.** Over 2014-2019, the number of beneficiary families is expected to increase to 300,000 (1,140,000 individuals), equivalent to coverage of 2.5 percent of the population. This expansion will improve coverage among beneficiaries from the poorest quintile, from five percent on average per month in 2012 to a projected 10 percent in 2019. The simulated impact of the expansion is about 1.2 percentage points reduction in the absolute poverty rate, lifting at a minimum[5] an

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[2] Average social assistance spending in the ECA region around 2011 was two percent of GDP. Calculations are based on Social Protection Database – Spending on Social Protection Programs, October 2013 version.

[3] Estimations based on HBS 2012 data, quintiles of per adult equivalent consumption net of SP spending.

[4] The coverage of the GMI program is estimated based on the average monthly number of beneficiary households (from administrative data) times the average household size (from survey data), divided by total population.

[5] To estimate the cost, targeting accuracy and impact on poverty and inequality of the GMI expansion, the team used a partial-equilibrium simulation model that increases the eligibility thresholds by a constant factor, such as to attract a larger pool of applicants into the program; details are presented in Annex 6. This model does not take into account the planned improvements in eligibility criteria or the results of the large-scale inspections, both measures which are likely to improve the targeting accuracy of the program in the outer years. The simulated impact of the GMI expansion on reducing poverty presented here is thus the lowest case scenario.

additional half million people out of absolute poverty and narrowing the poverty gap for those remaining in absolute poverty.[6]

10. **To counteract a possible deterioration of the GMI targeting accuracy through expansion, the Government intends to revise its eligibility procedures by 2016 to boost targeting accuracy,** while simplifying the eligibility criteria and procedures in order to reduce the administrative and client costs. The Government is expected to adopt new eligibility criteria that would result in at least a 10 percent increase in the predicted (simulated) targeting accuracy[7], i.e. the share of GMI benefits predicted to accrue to the beneficiaries in the poorest quintile.

11. **By 2018, the Government intends to implement activation services and incentives nationwide, to support the transition of work-able beneficiaries from benefits to employment**. Concerns that the GMI program discourages work are high in Ukraine. Three features of the GMI program justify such concerns: (i) the program's benefit is higher, relative to the beneficiary's income, than elsewhere in ECA[8] or other regions; (ii) the benefit formula imposes a 100 percent implicit tax on earnings; and (iii) about half of the adult GMI recipients are not in employment, education, training, disabled or receiving pensions (NEETDP). Compared to other similar programs in the ECA region, the Ukrainian GMI has relatively few measures to discourage benefit dependency. The only such measure is the condition to be registered with the unemployment office, which does not offer Active Labor Market Programs (ALMPs) that could help the beneficiary to transition from assistance to employment. To mitigate the likely work disincentives, the Government intends to develop and adopt a package of co-responsibilities for NEETDP adults by 2016, pilot it in two oblasts during 2017, and then roll them out nationwide during 2019. Supporting the expansion and transformation of the GMI program is one key element of the proposed Project.

12. **The expansion of the GMI program will require additional fiscal space, but there is scope for off-setting these costs within the social assistance system.** In 2013, GMI cost 0.28 percent of GDP; by 2019, it is projected to increase to 0.57 percent of GDP.[9] However, this expansion would be gradual, averaging about 0.05 percent of GDP per year. The Government could manage the gradual increase in GMI budget through a combination of the following measures: (i) capping indexation of categorical benefits to inflation; by 2019, this measure could reduce non-GMI social assistance spending by 0.53

[6] The poverty rate is estimated as the percentage of individuals with equivalent expenditures below Subsistence Minimum (SM). SM is set normatively and used to determine eligibility of social assistance programs.

[7] A 10% increase in targeting accuracy of the GMI program is both a feasible and ambitious target. As of 2012, the share of benefits reaching the poorest quintile, i.e. targeting accuracy, was 72.5 percent. Over 2005-2012, the maximum targeting accuracy was between 80-85 percent (in 2006, 2008 and 2009), see Table 2 in Annex 6. A 10 percent increase in targeting accuracy should bring the current targeting accuracy from 72.5 percent to its historical maximum of around 80 percent. These figures are, however, ex-post survey estimates. The eligibility determination model will only use predicted eligibility, using both current and revised rules, and will use the same minimum threshold of 10 percent for improvement in targeting accuracy.

[8] The GMI benefits account for almost 60 percent of the beneficiaries' income in 2012. Tesliuc et al (2014) report that, among 18 other ECA countries, this generosity indicator had an average of 30 percent, with only one country and program (the Lithuanian Social benefit) having a generosity of around 60 percent. Most Conditional Cash Transfer (CCT) programs have a generosity of about 20 percent. The generosity of the Ukrainian GMI program increased in 2012, with the introduction of a child supplement (in effect, making the GMI beneficiaries the recipients of two benefits, the GMI benefit itself and a flat child benefit).

[9] In 2012, the Government introduced flat supplements for children of households that benefited from the GMI program (UAH 250 for 3-6 year olds and 500 for 6-18 year olds). This flat child supplement accounts for about 32 percent of the overall GMI budget and makes the overall cost of the program higher. This also explains the higher cost of GMI expansion than one would expect without child supplements.

percentage points; (ii) eliminating or capping privileges,[10] generating savings of around 0.05 percent of GDP per year; and (iii) reducing error and fraud in the social assistance system, which would require building the capacity of the Social Inspectorate and deploying it across the largest risk-prone benefits. Starting with the third year of the project, the Government could expect fiscal savings ranging from 0.1 percent to 0.2 percent of GDP per year. The Project would provide assistance to elaborate and evaluate options for these policy reforms, finance public communication campaigns to mitigate the political opposition to such reforms, and provide needed investments in the newly created Social Inspectorate to make it effective and efficient.

Institutional context

13. **Benefit administration for social assistance programs is decentralized in Ukraine.** Benefits are administered through 756 'one-stop-shop' local welfare offices (LWOs). This network operates with oversight from the Ministry of Social Policy (MoSP) and reports to the respective divisions at the level of oblast administrations, but is funded out of local budgets. The administrative costs of these offices amount to about 0.09 percent of GDP. A one-stop-shop business model introduced under the World Bank-financed Social Assistance System Modernization Project (SASMP)[11] allows clients to undergo an eligibility check and sign up for all benefits via a single application supported by a standard set of documents. To support the administration of benefits, monitoring and reporting, a new management information system (MIS) called IASSPP has been developed and piloted in 30 LWOs in Vinnytska oblast. The Government has allocated funds to update the software and start the national rollout of IASSPP in 2014. The Project will support actions to expand IASSPP's functions by adding data from the system of publicly funded social services delivered to children, families and specific vulnerable groups, and make the MIS operational nationwide.

14. **The Ukrainian benefit administration system has a number of weaknesses that the Project plans to address.** The delivery system for cash transfer programs and social services is centrally financed and regulated, but is implemented by a network of autonomous units. Without a unified MIS in place and without a strong central unit to oversee and control the delivery of benefits and services (e.g. a central social inspection team), the oversight of performance of all local offices is relatively weak. The Project will support the development of instruments and institutions to help align national objectives with local office operations, through the full deployment of IASSPP, its continuous expansion to cover new business functions and a centralized social inspection unit.

15. **In addition, Ukraine has a large number of children in institutional care and service provision, responsibility for which is scattered between Ministry of Education (MoE), the Ministry of Health (MoH), and MoSP.** In total, over 61,000 children are in institutional care in Ukraine, or 0.6 percent of Ukraine's children. Ukraine has developed several national strategies and state programs[12] aimed at de-institutionalization of orphans and children deprived of parental care and the development of alternative forms of care for such children. The Project will help to implement these programs in four selected oblasts (Chernihiv, Zhytomir, Donetsk, and Dnipropetrovsk) by introducing a new business

[10] 'Privileges' are benefits that come in the form of reduction of the cost of utilities, telephone bills, and transportation costs.

[11] SASMP (P075231) closed on January 1, 2013.

[12] Specifically, the National Strategy for Ensuring the Rights of the Child and Family Support that the GoU adopted in 2012, and the State Program for Reforming Institutions for Orphans and Children Deprived of Parental Care by 2017 approved by the CoM resolution #1242 of 10/17/2007.

model for social patronage[13] of the vulnerable families in rayon level centers for social services for families, children and youth; training of the staff; and linking of centers to the new MIS system.

C. Higher Level Objectives to which the Project Contributes

16. **The Project is aligned with the World Bank Group's Country Partnership Strategy (CPS) for Ukraine for the period FY12–FY16, which lists improved efficiency and equity of social safety nets as one of its expected outcomes.** The CPS acknowledges that the SASMP helped to increase efficiency of the social assistance administration and confirms the World Bank's intention to build on that project in preparing a new lending operation to further improve the efficiency and effectiveness of social assistance programs.

17. **By focusing on the poorest and most vulnerable in society, the Project also supports the World Bank Group's twin goals of eradicating poverty and boosting shared prosperity**. The expansion of the GMI will almost double coverage of the program from 1.4 to 2.5 percent of the population, of which just over half are expected to be from the poorest decile, and two thirds from the poorest quintile. In this manner, the Project is explicitly targeting the extreme poor in Ukraine. The Project is boosting shared prosperity through its support of activation measures for GMI beneficiaries and de-institutionalization of vulnerable children. Activation measures will create opportunities for beneficiaries to become active members of the labor market. De-institutionalization of vulnerable children will promote social inclusion among those who have been excluded from society to date. The Project will aid in creating opportunities for these children to actively engage in Ukraine's economic growth and future prosperity.

18. **The Project will help the Government to protect the poor by**: i) supporting the expansion of the GMI program, ii) strengthening the Social Safety Nets administration, its oversight and control, and iii) aiding in the reformation of public social services for vulnerable children. In addition, the Project will invest in a number of crosscutting administrative reforms that will improve the effectiveness, efficiency and transparency of social services, thus increasing the synergy of support delivered through different programs to poor and vulnerable families. Equally importantly, the Project will focus on a few high-impact interventions with disbursements linked to traceable and measurable results of these interventions.

19. **The Project addresses gender dimensions through actions, analysis, and monitoring and evaluation**. The Project will support expansion of the GMI program and activation activities for recipients, benefiting both men and women equally. A gender assessment will be conducted for low-income applicants before they are awarded benefits and women will be offered additional services to improve their circumstances, including activation. An ex-post analysis of the Program's impact will be carried out to identify ways to improve the intervention and ensure a gender-balanced impact in terms of access to and use of the opportunities provided. Additionally, the Project will support the development of a performance monitoring system that will produce indicators disaggregated by gender, where appropriate. This will allow the Government to assess and correct gender imbalances.

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[13] Social patronage means the set of services and prophylactic measures aimed at preventing the breaking up of families found to be in "socially precarious" positions. Such measures could include the provision of social, educational, medical, and/or psychological assistance aimed at improving the quality of a given child's upbringing and development. Local authorities would be charged with implementing social patronage plans on an individualized basis. Beyond focusing on the security and care of the child, the authorities would provide various forms of assistance to the parents and to the family as a whole, including rehabilitation where necessary.

II. PROJECT DEVELOPMENT OBJECTIVE

A. Project Development Objective

20. **The Project's Development Objective is to improve the performance of Ukraine's social assistance and social services system for low-income families.** The Project Development Objective would be achieved by:

- Expanding the GMI program to increase access of the extreme poor to a last-resort poverty reduction program;
- Supporting measures for more efficient administration of social benefits and services through: (a) strengthening performance management to be supported by the national MIS; (b) streamlining oversight and control procedures under a central unit for social inspection, and (c) integrating data on benefits and services into a single MIS for all local offices under MoSP's subordination; and
- Designing and implementing a full range of social welfare services aimed at vulnerable children in four selected oblasts, from prevention to quality of service delivery and de-institutionalization of children.

B. PDO Level Results Indicators

21. **The five key Project Development Indicators (PDIs) for tracking progress toward the Project Development Objective are grouped around three Results Areas:**

- **Increase access of extreme poor to the GMI program**:
    - PDI 1: the share of individuals from the poorest decile receiving GMI increases from 10 percent in 2012 (baseline) to 16 percent in 2019;[14] and
    - PDI 2: the GMI budget increases at least three-fold in nominal terms;

- **Improved administration of benefits and services**:
    - PDI 3: An effective and efficient system to prevent, detect, deter and monitor error, fraud and corruption (EFC) in place; and
    - PDI 4: MIS collects social assistance and service programs' information nationwide;

- **Enhanced provision of family-based care to support families in need and vulnerable families through:**
    - PDI 5: Number of children de-institutionalized and moved to alternative forms of care in three selected pilot oblasts increased by 40 percent.[15]

C. Project Beneficiaries

22. **The direct beneficiaries of the Project would be poor households (beneficiaries of the expanded GMI) and children deprived of parental care, while taxpayers and other social assistance beneficiaries will indirectly benefit**. By focusing on the poorest in society, the Project supports the

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[14] The share of individuals is estimated using annual HBS data. The share of households from the poorest decile receiving GMI is expected to increase from 9 percent in 2012 to 13 percent in 2019.

[15] The fourth pilot oblast will be addressing the de-institutionalization of disabled children specifically, and will not be accounted for in the PDI, given the variation in strategies and placement.

eradication of extreme poverty. Indirectly, taxpayers will also benefit from the Project, as the level of social assistance spending lost to error or fraud is expected to decrease. Taxpayers and social assistance beneficiaries will also benefit from more effective and efficient social assistance spending, as all large social assistance programs will operate under a performance monitoring framework that will align operations with ultimate objectives.

23. **The Project will support the inclusion of the most vulnerable and socially excluded groups in Ukraine.** The expanded GMI will target households from the poorest decile and will cover a group of adults that are not in employment, education, training or disabled (NEETD). The NEETDs that are also beneficiaries of the GMI program are likely to be hard-to-serve and face multiple barriers to employment. They will benefit from activation services that the Project will help to develop and implement. In addition, the Project will directly address the needs of orphans and disabled orphans in selected oblasts, with 35,000 disabled children under the age of 18 and 13,000 orphans and children deprived of parental care benefitting. The Project will also build the foundations for additional reforms aimed at modernizing the social protection administration and preventing child institutionalization. Integration of services provided by LWOs, local Centers for Social Services for families, children and youth and by Territorial Centers is expected to improve services and promote the inclusion of vulnerable groups into society.

III. PROJECT DESCRIPTION

A. Project Components

24. **The Project is tackling three important areas across the social protection system in Ukraine: assisting in expanding and financing the GMI, continued administrative modernization, and de-institutionalization of children.** While there are other important issues, such as inefficient categorical benefits, that need to be addressed in the social protection system and a variety of topics were considered, these three components were chosen based on the importance of these areas to the overall social protection system, commitment and political will of the Government for reforms, and World Bank's expertise. Addressing categorical benefits was also considered, but the Government was not prepared to tackle this issue given the current political economy. Instead, the World Bank and the Government agreed to continue dialogue on this issue.

25. **All three components are linked through the definition of the Project's Results Framework.** Specifically, technical and system improvements, as well as development of new models of service delivery supported by Component 2 and 3, represent necessary, but not sufficient inputs to the achievement of results that will trigger disbursements under Component 1 (see the Project Financing section for details on the mechanisms).

26. **Component 1. Improving social assistance provision to the most vulnerable *(US$7 billion in Government-financed project costs; US$200 million in IBRD loan).*** This component will support the Government's reform agenda within three specific results areas, namely by: (i) accelerating poverty reduction through the gradual expansion of the GMI program; (ii) strengthening SSN administration to ensure efficient oversight and controls in both social assistance and social services delivery, and improved data management tools (MIS system) to support operational decisions and policy making; and (iii) aiding in the provision of effective social support to families in need and vulnerable families through integrating provision of benefits and services and supporting de-institutionalization of children's services. This component will provide financing of payments under the Eligible Expenditure Program (EEP) in support of the expansion of the GMI Program. Achievement of results in these three areas will be monitored with disbursement-linked indicators (DLIs), specifically in the three results areas set forth below.

27. **Results Area 1: Increased access of the extreme poor to the GMI program.** The Project will support an increase in GMI program coverage, an improvement in its eligibility criteria and procedures to preserve its targeting accuracy amid expansion, and activate GMI beneficiaries on the labor market and help them overcome difficult living conditions. The Project will co-finance the expansion of the GMI program from about 160,000 recipient households in September 2013 to 300,000 in Year 6 of project implementation by disbursing loan funds against achievement of DLIs A1-A4. To counteract any possible deterioration of targeting accuracy while the program expands, another DLI B1 rewards improvements in eligibility criteria that would lead to improving GMI targeting performance, while simplifying these application procedures (so that the cost of administering them for both administrators and beneficiaries is reduced). The Project will support activities related to activation of GMI beneficiaries through DLIs C1-C3, recognizing that the best protection against poverty is through employment.

28. **Results Area 2: Improved administration of social benefits and social services.** Within this results area, eight DLIs were selected to recognize progress along the results chains. DLIs D1-4 support the development of an effective and efficient system to detect, deter and prevent error and fraud in the social assistance system. Reducing the level of spending lost due to error or fraud will reduce the cost of social assistance and will positively impact its fiscal sustainability. The Project will support the Government in establishing a Social Inspectorate with the capacity to effectively identify and correct benefit irregularities related to errors and fraud. DLIs E1-4 will support the roll-out of the MIS, its expansion to cover social services in addition to social benefits, and its use for both operational decisions and for policy making.

29. **Results Area 3: Enhanced provision of family-based care to support orphans and children deprived of parental care, families in need and vulnerable families.** Creating services for children outside public institutions will require an active legal and regulatory framework, including service standards, fiscal instruments, and tender procedures for outsourcing social services to non-state providers, such as private companies and NGOs. This development will be supported by DLI F1. DLI F2 will track progress in transforming and downsizing residential care institutions for children, as well as the creation of alternative forms of care (foster parents, guardians, relatives who obtain legal custody, family foster homes, special treatment foster homes, etc.) in four oblasts.

30. **Component 2. Supportive investments for institutional strengthening for administration of social assistance and social services *(US$80 million IBRD Loan)*.** This component finances provision of goods, non-consulting services, consultants' services, training and operating costs to support strengthening the institutional capacities of MoSP and local offices to implement and monitor benefits and service. These investments and technical assistance are necessary, but not sufficient, conditions to achieve the results indicators under Results areas 1 and 2; they will be complemented by MoSP own efforts and investments. The component will finance critical inputs for: i) strengthening institutions and improving information management; ii) developing, establishing and implementing mechanisms to strengthen oversight and controls; iii) developing new business models for administering benefits and services; iv) improving communications, promotion and outreach; and v) project coordination and management. Detailed descriptions of each sub-component are in Annex 2.

31. **Component 3. Supportive investments for increasing provision of family-based care to support orphans, children deprived of parental care, disabled children and vulnerable families in four oblasts *(USD$20 million IBRD loan)*.** This component finances investments to support: i) childcare de-institutionalization by providing orphans and children deprived of parental care with a family environment through foster care, adoption and placement in family-type homes; ii) transformation of residential institutions; and iii) purchasing of new services from private and non-governmental providers for vulnerable families. These investments and technical assistance are necessary, but not sufficient, conditions to achieve the results indicators under Results Area 3; they will be complemented by MoSP's

own efforts. These activities will be implemented in four selected oblasts according to action/ transformation plans on transforming residential care into family-based care. Individual action plans for each oblast will be developed. Two such plans are being developed under the ECAPDEV[16] Grant for Preparation of the Second Social Safety Nets Modernization Project, one plan including transformation of institutions for disabled children, and another one including de-institutionalization of children that are not disabled. The Project will support the design of action/ transformation plans in two other oblasts, and implementation of the action/ transformation plans in all four oblasts. Specifically, this component will finance goods, works, services, equipment and furniture for family homes and *internats*, as well as needed training and retraining of social workers.

B. Project Financing

32. **The Project will be implemented over six years, through an Investment Project Financing (IPF) IBRD loan in the amount of US$300 million** plus government counterpart funds of approximately US$7 billion to finance the GMI program. The team considered a variety of financing options. A Development Policy Loan (DPL) was not appropriate, as the majority of the Project involves supporting Government implementation. A Program for Results (P-for-R) instrument was not an option, as this mechanism would require additional legislation in Ukraine, not feasible at this time. IPF was therefore deemed the most suitable tool as the Project expands and deepens the work completed under the SASMP. Component 1 follows a results-based framework, while Components 2 and 3 follow standard investment project financing arrangements.

33. **For Component 1, disbursements will be linked to a defined eligible expenditure line item** (the "Eligible Expenditure Program" or EEP), and triggered by verified achievement of agreed specific results (disbursement-linked indicators, or DLIs). The EEP will co-finance the GMI program for social assistance to low-income families. Component 1 will reimburse the State Treasury for a share of monthly GMI expenses (EEP) during the project period. As in any investment loan, the World Bank would disburse against verification of Government expenditures (and upon verification of the DLIs, as discussed below). Disbursements from the proposed loan will be part of regular State Budget financing, with the World Bank as one of the sources of overall funds, spent in accordance with State Budget policies and procedures. To enable the World Bank team to monitor progress in releasing resources for this program, the State Treasury will submit semi-annual reports on the execution of the State Budget regarding the above-mentioned expenditures. The financial reporting system of the State Treasury and Ministry of Social Policy will regularly track and report on budget estimates and actual expenditures for the GMI benefits. This monitoring will enable the Project to rely on the national fiduciary system for project financial management and disbursement, as discussed below.

34. **Disbursements of funds for Component 1 will be triggered by achievement of results and incurrence of reimbursable eligible expenditures.** A series of results chains contribute to the achievement of the Project Development Indicators (PDIs), and ultimately the PDO. Along the "results chain," some of the critical inputs, outputs, and outcomes have been selected as DLIs. A total of 17 DLIs have been discussed with the GoU and are detailed in matrix format in Annex 2, Table 2. Among the 17 DLIs, two are considered as intermediate outcomes; 12 are considered as outputs, and three represent inputs. The results chains from Annex 2, Table 2 will be supported by the investments in inputs under Components 2 and 3.

[16] The ECAPDEV Trust Fund was established to build operational capacity in the region. It supports improvements in the quality and speed of project preparation. It is a multi-donor Trust Fund with initially pledged resources from the Government of Russia

35. **The achievement of each DLI will be monitored, measured and verified** according to specific protocols elaborated in the POM. The Project's Task Team Leader must certify achievement of a DLI and incurrence of reimbursable eligible expenditures before the associated loan amount is released. It is important to note that the projected timing and the associated disbursement projections are indicative; disbursements will be made upon verified achievement of the specified DLI at any time during the implementation period (see Annex 2 for projected disbursements and government expenditures).

C. Project Cost and Financing

36. **The Project's contribution will represent a small share of the Government's spending on the GMI, fluctuating from three percent to five percent**. IBRD financing will cover the full costs of the specific investments identified for institutional strengthening and development of family-based care under Components 2 and 3.

Table 1. Project Costs

Project Components	Project cost (GMI budget financing) (in US$ m)	IBRD Financing (in US$ m)	% Financing
1. Improving social assistance provision to the most vulnerable.	7000	200	2.8
2. Supportive Investments for Institutional Strengthening for Administration of Social Assistance and Social Services.		80	100
3. Supportive Investments for Increasing Provision of Family-based Care to support orphans, children deprived of parental care, disabled children and vulnerable families in four Oblasts.		20	100
Total Project Costs	7000	300	4.2
Front-End Fees			
Total Financing Required			

D. Lessons Learned and Reflected in the Project Design

37. **The proposed project builds on experience of past projects in the social protection sector in Ukraine.** The proposed approach responds directly to the demand for high-impact, result-oriented interventions in partnership with the GoU while it also allows the provision of continuous technical assistance, especially in the next stage of safety net reform. In the past, repeated attempts to reform social safety net in Ukraine were supported by donors through provision of technical assistance and the World Bank through SILs and DPLs. In 2008, the major donors' support to social protection reforms was completed and the World Bank became the main government partner in social protection area. The proposed project builds on the SASMP achievements and ongoing policy dialogue through DLPs that allowed focusing new operation on a few high-impact technical interventions that link disbursements to measurable results.

38. **The experience gained from results-based SILs in other countries has been taken into account in guiding the design of the proposed project.** These lessons showed that the results-based approach promotes a strong partnership through implementation that clients find helpful. The DLIs provide a strong incentive to the Ministry of Finance to facilitate project activities. However, to ensure strong buy-in from the line ministry undertaking the reform, it has been critical to have access to complementary financing for technical assistance and investment needs during implementation. The proposed project would provide the GoU with the means to design the implementation phase for SSN reforms and to reward the results through DLI linked disbursements. In doing so, the project aims to help inculcate a culture of results monitoring in regular government practice.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

39. **As the central government body responsible for social assistance policy development, the MoSP will be the main implementing agency for the Project.** This is the third project financed by the World Bank and executed by MoSP.[17] The Project will use the same implementation arrangements as under SASMP: the Deputy Minister of MoSP will be made responsible for overall project implementation and will lead the Project Management Group established in MoSP to guide implementation and make decisions.[18] This implementation arrangement will be reflected in the POM. External consultants hired by MoSP will provide additional technical assistance and expertise required to implement project activities. The team of consultants hired under the ECAPDEV grant that are helping MoSP to prepare the Project will continue working on the Project. The current core team of consultants comprises a Procurement Specialist, a Financial Management Specialist and a Project Adviser responsible for the preparation of the POM. Given the satisfactory level of performance of the current staff, the existing arrangements for procurement and financial management under the ongoing ECAPDEV Grant will also be applied for the Project. Enhanced procurement expertise and controls will be applied, given the high governance risks in Ukraine. Oblasts' State Administrations will play a supervisory role in project implementation, but will not execute any of the project activities.

40. **Renovations of family homes and *internats* under Component 3 of the Project will be delegated to Ukraine Social Investment Fund.**[19] The proposed flow of funds will remain within the framework of the State Treasury system of Ukraine**.** Civil works, supervision of civil works performance and minor new construction needed for transformation of institutions for orphans and disabled children under Component 3 will be procured by and financed through Ukraine Social Investment Fund (USIF), an autonomous public non-profit organization created by a Cabinet of Ministers (CoM) decree. USIF possesses adequate fiduciary capacity to ensure compliance with World Bank procurement and financial management rules, and the capacity to address the requirements of the environmental and social safeguards. USIF will be designated as a recipient of the state budget funds by Ukrainian budget legislation. The Administrative Agreement between MoSP and USIF will set the division of

17 MoSP implemented the following World Bank projects and grants: Ukraine Social Investment Fund (USIF) project (2002 – 2008), the Social Assistance System Modernization (SASM) project (2006 – 2012), a few PHRD project preparation Grants, and a SIDA grant to co-finance the SASM project. MoSP is currently implementing the ECAPDEV.

18 The Working Group established in MoSP to oversee the implementation of the ECAPDEV Grant is led by a MoSP First Deputy Minister. He was involved in SASMP implementation during its final year and completion, as well as the initiation of the ECAPDEV Grant.

19 USIF was created by Ukraine Decree #740 of April 28, 2000 to support socially vulnerable groups of the population and the initiatives of local communities and NGOs.

responsibilities between them in implementing renovations under Component 3 of the Project; payment procedures, accounting and reporting. USIF will use a tripartite agreement to govern the relationship between USIF (a payer/customer), a family house or *internat* (owner/property holder/beneficiary) and a construction firm (executor).

B. Results Monitoring and Evaluation

41. **With a results-based approach, monitoring and evaluation (M&E) is built into the core design of the Project.** Since disbursement will rely on verified evidence of achievement of the DLIs and incurrence of reimbursable eligible expenditures, MoSP will be required to comprehensively monitor and report the results. The Project's Results Framework relies on MIS data and the national household survey. The Project will support enhancements to the MIS so that more comprehensive data on all social assistance programs and services can be attained. For statistical data and longer-term monitoring (e.g., of PDIs on coverage and targeting accuracy), the Project will use the nationally representative Household Budget Survey (HBS) run by the State Statistics Committee.

42. **While MoSP will be responsible for the overall monitoring and evaluation of project performance, the State Administration for each oblast will be responsible for supervision of implementation of Component 3**. The oblasts' responsibilities include supervision of implementation of the master plans aimed for downsizing, closure and transformation of residential institutions and corresponding action plans for implementation of new services in the respective oblasts.

C. Sustainability

43. **The Project's sustainability relies on the Government's commitment to reforms.** As previously stated, the Project design builds on the goals and commitments set out in several Government strategies to reform social services and de-institutionalize children. Component 2 of the Project will provide information and public relations support aiming to emphasize the role of the GMI program in helping people move out of poverty and establishing its "goodwill" in the eyes of the general public.

44. **Securing fiscal space for the GMI gradual expansion is tackled by the Project directly and indirectly.** The Project directly co-finances the GMI expansion. In addition, the Project will help develop policy reform options to off-set the costs of this expansion, such as reducing the spending on inefficient categorical benefits and privileges, and reducing errors and fraud in the social assistance system.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	**Rating**
Stakeholder Risk	**Substantial**
Implementing Agency Risk	
- Capacity	**Moderate**
- Governance	**Substantial**
Project Risk	
- Design	**Substantial**
- Social and Environmental	**Low**

- Program and Donor	**Moderate**
- Delivery Monitoring and Sustainability	**Substantial**
Overall Implementation Risk	**Substantial**

B. Overall Risk Rating Explanation

45. **A 'substantial' rating has been selected to reflect elevated country, sector and multi-sector risks, and a possible change in MoSP top management,** with a potential risk of weakening MoSP's implementing capacity and governance. As the Project's success and sustainability depends on it, the plan for MIS roll-out nationwide has been made a condition for moving forward with project preparation. In November 2013, the Government adopted a Cabinet of Ministers resolution stipulating the implementation of the MIS by 2015 along with budget allocated for this purpose. The ECAPDEV grant for project preparation will finance some key preparatory activities to ensure a smooth transition into implementation stage under the Project, once the loan funds are made available.

46. **A 'substantial' rating also reflects other factors that could hinder project implementation.** The elements adding to this rating most are operational environment risks stemming from the political situation, as well as uncertain macroeconomic stability and growth prospects influencing the sectoral and multi-sectoral outlook for the Project, governance issues that became evident in the course of the SASMP implementation and also risks associated with project design entailing a new results-based approach and ambitious reform agenda.

47. **Reforming GMI, social services and institutional care for children in Ukraine carries inherent political risks since such reforms will inevitably create "winners" and "losers" in the distribution of social benefits**. As discussed in Annex 4 (ORAF), such risks are rated as high due to the possibility that reforms will be delayed, diluted, or discontinued because of the potential for political and popular opposition. Nonetheless, experience in other countries shows that solid diagnostics and a careful strategy to manage the implementation of reforms, with tailored and on-going communications, consultations and engagement, can greatly facilitate the sustainability and success of reforms.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

48. **The Project will bring direct and indirect poverty benefits.** The GMI program and improvements in Social Safety Net (SSN) administration supported by the Project would have two main impacts: (a) impacts on GMI beneficiary households, in terms of increased incomes (from transfers) and consumption; and (b) impacts on national estimates of poverty and inequality due to the redistributive nature of these transfers. In addition, improvements in SSN administration would improve targeting of overall spending on SSN, thus adding to the poverty reduction impact.

49. **At the household level**, **the primary impacts would be on the incomes and consumption of GMI beneficiary households.** The main impact of the expanded GMI Program supported by the Project would stem from the direct effects on income (and hence consumption levels) of the beneficiary households based on the redistributive cash transfers. As of 2012, the average number of GMI beneficiary households was only 98,589 (which is about 0.9 percent of the total population), by the end of 2019, the number is expected to increase by at least three times (to about 300,000, which is about 2.5 percent of the total population).

50. **The enhanced GMI benefit would have a much larger impact on beneficiaries' welfare**. The average benefit per household is expected to increase in real terms by approximately 23 percent - from UAH 2,081 per month in 2013 to UAH 2,555 in 2019 (in nominal terms the increase would be about 75 percent). Moreover, the increase of the per capita benefit is expected to be 37 percent larger because of a slight decrease in the average household size of the beneficiaries.

51. **Reforms to expand targeted programs and contain the costs of some categorical schemes would have a positive net impact on reducing poverty and inequality**. By 2019, the poverty rate would drop from 13.3 percent (counterfactual without GMI expansion and inequality-neutral economic growth) to 12.1 percent. The simulated impact of the GMI expansion is about 1.2 percentage points reduction in the absolute poverty rate. The GMI expansion is projected to lift an additional 542,600 people out of absolute poverty[20]. The GMI expansion will narrow the poverty gap, including the income gap for those still in absolute poverty. In 2019 the difference between the poverty gap without and with the enhanced GMI program would be from 0.025 to 0.021.

52. **A significantly increased budget would be needed for the expanded program**. While in 2013 the total GMI budget is projected to be UAH 3,963 million, in 2019 is expected to be approximately UAH 13,173 million (nominal prices). As a percentage of GDP the budget for GMI would increase from 0.28 percent to about 0.57 percent; in real terms, the 2019 budget will be 2.3 times higher than in 2013. However, the increase in social assistance outlays will happen incrementally, and could be off-set if the Government continues to pursue reforms such as capping privileges, containing the costs of ineffective birth grants and reducing error and fraud in the social assistance system.

B. Technical

53. **Ukraine has a well-functioning targeted mechanism to channel assistance to the poor and vulnerable - the GMI program.** If expanded and improved, the GMI could be used to respond to structural reforms that may have potential adverse impacts on the poor. The Project will help the Government sustain its efforts to expand the GMI and ensure that the program is improved and adequately funded. The Project will also create the links between benefits and services to achieve synergy in the provision of social protection measures and help families to graduate from poverty either by helping them enter the labor market or by helping them overcome social exclusion.

54. **The value-added of the Project design will come from the following sources:** i) a deep long-term partnership between the Government and the World Bank for implementation support of SSN reforms, particularly on consolidating and scaling-up the GMI; ii) direct links between co-financing the program and achieving results; and iii) technical assistance, which will build on investments supported by the previous project.

C. Financial Management

55. **The financial management (FM) assessment of the Project confirmed that the FM arrangements are satisfactory, subject to completion of the Action Plan outlined in Annex 3**. The Project will be implemented using country systems wherever possible**.** In particular, the Project will use the State Treasury system for accounting and reporting, have its financial audits carried out by the Accounting Chamber, and follow the national budgeting procedures. The overall FM risk is assessed as substantial, given Ukraine's lack of previous experience with results-based lending, the Project's

[20] This is a lower-bound estimate of the simulated impact on poverty reduction; it does not include the positive impact of the improvement of the targeting accuracy nor the improved oversight and control through social inspections.

extensive use of country systems, including the State Treasury, and involvement of USIF in project implementation.

56. **MoSP will be in charge of the overall financial management and disbursements for the Project.** Renovations of building of family homes and *internats* (minor civil works) under Component 3 of the Project will be delegated to USIF. Civil works, supervision of civil works performance and minor new constructions needed for transformation of institutions for orphans and disabled children under Component 3 will be procured by and financed through USIF. Financial management of these works will be provided by USIF, while the financial management in all other activities will be the responsibility of MoSP. The financial management consultants of both MoSP and USIF have extensive experience in financial management of World Bank-financed projects. They will work in close coordination with the financial staff of MoSP, as well as with Ministry of Finance (MOF). An FM consultant, who is currently responsible for Financial Management under the ongoing ECAPDEV Grant, has strengthened the capacity of MoSP.

57. **Implementation of Component 1 would rely on the Government's existing financial management architecture for the GMI that is the Project's Eligible Expenditure Program (EEP).** Specifically, based on the reports generated by the Government's Treasury System and MoSP monitoring report on GMI execution, the World Bank will reimburse the Government for a share of expenditures on the Eligible Expenditure Program - the GMI - when certain results (DLIs) have been achieved and verified. Disbursements from the proposed loan would be part of regular State Budget financing, including replenishing eligible expenditures already incurred, with the World Bank as one of the sources of overall funds, spent in accordance with State Budget policies and procedures. Implementation of Components 2 and 3 will rely on the standard IPF FM and disbursement arrangements, which have been put in place at MoSP and USIF. Details on division of responsibilities, budgeting, accounting and reporting arrangements, internal controls and audit requirements at MoSP and USIF are provided in Annex 3.

58. **The World Bank assessed the architecture of the GMI program and found the program to perform with adequate levels of transparency**, **function under an adequate system of checks and controls, and produce reliable financial and budget execution reports.** The Accounting Chamber of Ukraine (Supreme Audit Institution) has undertaken and completed several operational and financial audits of the GMI Program. The Accounting Chamber agreed that it will conduct financial statements' and performance audits of the program to meet with the World Bank's audit requirement. Requirements will be reflected in terms of reference acceptable to the Bank. Performance audits would be focused on assessing the verification mechanisms for the GMI program related to the application of eligibility criteria, as well as the programs' administration, oversight and control aspects. Audited financial statements would be published on MoSP's website. More detail on financial management and disbursement arrangements for implementation of Component 1 are provided in Annex 3.

D. Procurement

59. **Since Component 1 of the Project will co-finance cash transfers under the GMI program, procurement of goods, works, non-consulting and consulting services will apply only to the activities in Components 2 and 3.** The Project uses the IPF instrument, with a results-based approach adopted in Component 1. The World Bank's procurement rules and procedures will be applicable only to Components 2 and 3 of the Project, in the amount of US$100m. A Procurement Specialist, experienced in World Bank procurement rules and procedures was hired to support MoSP with implementation of the ECAPDEV grant, and will continue assisting MoSP in all of the Project's procurement aspects. An IT Procurement specialist will be added to the World Bank team to supervise activities on MIS development. Under Component 3, USIF will help MoSP to procure and manage contracts for renovation and

reconstruction of the *internats* and family homes in four pilot regions. The terms and conditions for provision of these services will be stipulated in a separate internal administrative agreement between MoSP and USIF to be adopted after project effectiveness.

60. **The overall procurement risk is rated substantial and the residual risk is moderate after implementation of the discussed and agreed mitigation measures**. The World Bank's team conducted a procurement capacity assessment of MoSP and USIF focusing in particular on the review of current and past procurement practices, procedures and experience**.** A more detailed procurement capacity assessment is provided in Annex 3.

61. **A number of mitigation measures are to be completed during project preparation**. These include**:** (i) elaboration of a Procurement Plan for the entire project implementation period, including a Procurement Plan for the component implemented by USIF; (ii) elaboration of technical requirements, specifications and cost estimates for the Project's IT component. Mitigation factors to be completed by loan effectiveness, include: (i) approval of a POM by the World Bank (see Annex 3 for details); and (ii) updating of USIF's operational and procurement manuals and the Bidding Documents to reflect current World Bank policies and procedures, in particular on anti-corruption. These documents will be reviewed and approved by the World Bank. The updated part of USIF's operational and procurement manual on civil works will be included in the overall Project Operation Manual. Agreed mitigation measures to be carried out throughout project implementation include provision of continuous procurement assistance via a consultant to MoSP for conducting procurement and facilitating communication with the Bank. The World Bank's procurement team will provide continuous support and guidance to the Procurement consultant and MoSP.

E. Social (including Safeguards)

62. **The Project is focused on delivering strong social outcomes, and does not trigger any of the World Bank's social safeguard policies.** It will support targeting GOU's programs to reduce poverty and inequality in the short run and promote human capital development in the long run. The GMI Program will be modified to eventually link program beneficiaries with employment services and other services thus helping families to cope with a variety of problems. In terms of social outcomes, the focus of the Project is to improve coverage of the poor and targeting accuracy. The Project will support strengthening the system for identifying the targeted population through Component 2 to help ensure that transfers reach the poor. The Project also supports improvements in governance and transparency such that the beneficiary identification and selection process is fair and transparent. Works financed under the Project will not involve any change in the existing footprint of facilities, and all land used is public, with no squatters or occupants that will be involuntarily displaced, either physically or economically. Therefore, OP4.12 is not triggered.

F. Environment (including Safeguards)

63. **The main safeguards issues in the Project are expected to arise from Component 3, related to possible civil works.** The Project's potential environmental impacts are expected to result from small scale, mostly indoor construction works required for refurbishing and adaptation of interior space for the accommodation of orphans and disabled children. It is recognized that the project environmental and social risks are minor given that the World Bank's safeguards team classified the Project as Category "B", and may thus follow a simplified safeguards procedure. The Environmental Management Framework (EMF) was prepared outlining the Environmental Assessment relevant rules and procedures for the selected sub-projects. Once the sub-projects to be financed are identified, Checklist Environment Management Plans (EMP) will be prepared for each identified object/site. The overall responsibility for the implementation of sub-projects, including the civil works and appropriate procedures and principles

regarding the environmental assessment and monitoring, lies with the Ukraine Social Investment Fund (USIF). USIF follows its environmental guidelines, which are in compliance with the World Bank's Environmental Assessment requirements. The Environmental and Social Safeguards Specialists on the team will supervise EMP implementation by USIF and monitor potential environmental impacts. The EMF has been disclosed through the USIF web page.

Annex 1: Results Framework and Monitoring

Table 1. Results Framework

Project Development Objective: To improve the performance of Ukraine's social assistance and social services system for low-income families. The Project Development Objective would be achieved by:

- Expanding the GMI program to increase the access of the extreme poor to a last resort poverty reduction program;
- Supporting measures for more efficient administration of social benefits and services through: (a) strengthening performance management to be supported by the national MIS; (b) streamlining oversight and control procedures under a central unit for social inspection, and (c) integrating data on benefits and services into a single MIS for all local offices under the MoSP's subordination, and
- Designing and implementing a full range of social welfare services aimed at vulnerable children in four selected oblasts, from prevention to quality of service delivery and deinstitutionalization of children

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values: YR1 2014	YR2 2015	YR3 2016	YR4 2017	YR5 2018	End Target (YR6 2019)	Frequency	Data Source/ Methodology	Responsibility for Data Collection
Results Area 1 **Expanded access of extreme poor to the enhanced anti-poverty program (the GMI program)** **Indicator 1: Coverage:** 16 % of population in the poorest decile receive GMI benefits	☐	Percentage	10.0 (2012)	10.0	10.0	12.0	13.0	14.0	16.0	Annual	HBS Administrative data; annual coverage	SSS MoSP
Indicator 2: GMI budget increased three times in nominal terms	☐	million UAH	3.9 (2013)	5.0	7.7	9.0	11	12	13.0	Annual	HBS Administrative data	SSS MoSP
DLIs **A. GMI coverage expanded:** monthly number of beneficiary families reached and maintained for at least 3 consecutive months)	☐	Number	160,000 (2013)	200,000 (DLI A1)		250,000 (DLI A2)		300,000 (DLI A3)		Biannually	Administrative data	MoSP
B. **Improved mechanisms of the GMI program adopted and implementation started** including simplified application procedures to achieve stronger targeting accuracy and lower its delivery cost	☐	Yes/No	No (2013)	No		Yes (DLI B1)				Annual	Reports Cost evaluation Administrative data	MoSP

C. **SSN system complemented with activation services** for work-able GMI beneficiaries to help families graduate from benefits into employment and self-sufficiency	☐	Text	No activation services under GMI (2013)	No activation services for work-able GMI recipients	Mechanisms of activation services delivery developed for piloting; pilots started in 3 oblasts (DLI C1)			Pilots in 3 oblasts completed (DLI C2)	Activation services delivery implemented nationwide (DLI C3)	Annual	Reports Administrative data	MoSP
Results Area 2 **Improved administration of benefits and services** **Indicator 3:** System to prevent, detect, deter and monitor errors, fraud and corruption (EFC) in place	☐	Yes/No	No (2013)	-	-	-	-	-	Yes	Annual	Cost evaluation Report on performance Audit report by ACU	MoSP Social Inspectorate Accounting Chamber
Indicator 4: MIS collects social assistance and social service programs' information nationwide	☐	Text	Piloted in 2 of 27 oblasts (2012)	-	-	-	-	-	Used nationwide	Annual	Administrative data Progress reports	MoSP Welfare offices
DLIs D. **Improved** oversight **and control**	☐	Text	No Social Inspectorate (2013)	Social Inspectorate (SI) established at MoSP (DLI D1)		Inspection of 80% of GMI beneficiaries' cases completed (DLI D2)	GMI program inspection is completed based on analyzed discrepancies found during data exchange with external databases and remedy proposals provided (DLI D3)	Two thematic inspections for GMI and one risk-prone SA program is completed using an adequate risk-profiling system (DLI D4)		Annual	Reports and audits Administrative data	Social Inspectorate MoSP
E. **Improved collection and use of** program **information in new MIS (IASSPP)**	☐	Text	IASSPP not operational (2013)		70 percent of LWOs process applications for SA in MIS (DLI E1)		Performance monitoring module for social benefits operationalized in MIS (DLI E2)	The MIS expanded with a module for social services and module is tested in 2 oblasts (DLI E3)	The MIS that process benefits and social services is operationalized nation-wide (DLI E4)	Annual	Administrative data	Oblast state administrations MoSP
Results Area 3 **Enhanced provision of family-based care to support orphans and children deprived of**	☐	Percentage	(Baseline data for 2013will be available	-	-	..*	..*	..*	..*	Annual starting in 2016	Oblast-level reports Administrative data	Oblast state administrations MoSP

parental care, families in need and vulnerable families **Indicator 5:** Number of children de-institutionalized and moved to alternative forms of care in three selected pilot oblasts increased by 40 percent			before negotiations in April 2014)									
DLIs **F. Increased provision of day-time services and alternative care as opposed to residential care for orphans, children deprived of parental care and children from vulnerable families**	☐	Text			Legal framework adopted for transformation of residential care and development of family-based care (DLI F1)			Number of children in residential care institutions in three pilot oblasts decreased by 40 percent compared to baseline (DLI F2)		Annual	Administrative data	Oblast state administrations MoSP

Intermediate Results Indicators

No IO Indicators have been entered.
***** data will be available before project negotiations in April 2014

Annex 2: Detailed Project Description

The proposed project would be implemented over six years, through a Result-Based Financing (RBF)/ Investment Project Financing (IPF) IBRD loan in the amount of US$ 300 million plus government counterpart funds of approximately US$ 7 billion to finance the GMI program.

The proposed project would consist of *three inter-related components.* As an RBF type operation, the first component would co-finance a share of the social assistance program aimed at protecting poor families (GMI) and improvements of the administration of benefits and services. Disbursements would be triggered by achievement of specific results and incurrence of reimbursable eligible expenditures (as discussed in more detail below). This component would foster the Government reform agenda, namely (1) a gradual expansion of the anti-poverty program, the GMI program; (2) modernization of administration to ensure efficient oversight and controls in both benefits and services, and comprehensive data management tools (MIS system) that are effectively used for operational decisions and policy making; and (2) effective social support to families in need and vulnerable families through concerted provision of benefits and services and supporting de-institutionalization of children services.

The second and third components to follow standard World Bank procedures for investment lending would, through the selected investments in critical inputs to facilitate (i) the implementation of administrative modernization of the network of offices that provide social benefits and services and (ii) child de- institutionalization in four selected oblasts. Administrative modernization would be supported with the further development of Management Information System built under the previous SASMP. Component 3 would support the Government's plan for de-institutionalization of children services. It would finance the investments intended for transformation of institutional care into family- and community-based care in four selected oblasts. The relevant plans for transformation of the residential care in the two oblasts will be prepared and costed under the ECA Capacity Development grant.

All three components are linked through the definition of the results framework. Specifically, technical and system improvements as well as development of new models of service delivery supported by Component 2 and 3 contribute to the achievement of results that would trigger disbursements under Component 1 (they represent necessary, but not sufficient inputs to achieve the DLIs).

Component 1. Improving social assistance provision to the most vulnerable (US$ 7 billion in project costs; US$ 200 million in IBRD loan). The objectives of this component are to (i) accelerate poverty reduction, through expansion of the anti-poverty last-resort program, the GMI and (ii) strengthen administration of benefits and services, oversight and control procedures, and the collection and use of program information for policy making.

This component would co-finance GMI program. Disbursements would be: (a) linked to defined eligible expenditure line item comprising the "Eligible Expenditure Program", or EEP; and (b) triggered by verified achievement of agreed specific results (disbursement-linked indicators, or DLIs). The EEP would co-finance GMI-type program for social assistance to low-income families. Accordingly, this component will provide financing of payments under the EEP in support of the expansion of the GMI Program, specifically in the three results areas set forth below.

Table 2. Matrix of Results Indicators

PDO Results Area	Disbursement-Linked Indicators (DLIs)						PDIs
	Target Timing	**Target Timing**	**Target Timing**	**Target Timing**	**Target Timing**	**Target Timing**	
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	
Results Area 1: Expanded access of extreme poor to the enhanced anti-poverty program (the GMI program): ***A.*** *Expand the coverage of the GMI program;* ***B.*** *Improved mechanisms of the GMI program delivery to achieve stronger targeting accuracy and lower its delivery cost; and* ***C.*** *Put in place SSN system, including activation services for work-able GMI beneficiaries, to help families to graduate from benefits to employment and self-sufficiency*	**DLI A1** US$20.0 mn **Monthly number of GMI beneficiaries families reaches 200,000 and is maintained for, at least, 3 consecutive months***(output)*		**DLI A2** US$20.0 mn **Monthly number of GMI beneficiaries families reaches 250,000 and is maintained for, at least, 3 consecutive months***(output)*		**DLI A3** US$20.0 mn **Monthly number of GMI beneficiaries families reaches 300,000 and is maintained for, at least, 3 consecutive months***(output)*		1. The share of individuals from the poorest decile receiving GMI increases from 10 percent in 2012 to 16 percent in 2019. *Baseline:* *in 2012 10 percent of population in the poorest decile received GMI.* 2.The GMI program budget increases at least three-fold in nominal terms *Baseline:* *3.9 million UAH in 2013.*
			DLI B1 US$10.0 mn **Improved mechanisms of the GMI program delivery adopted and implementation started including simplified application procedures so as to lead to better targeting of the poor** *(output)*				
			DLI C1 US$10.0 mn **Mechanisms of activation services delivery for work-able GMI**		**DLI C2** US$10.0 mn **Piloting activation services for work-able GMI**	**DLI C3** US$15.0 mn **Activation services delivery for work-able GMI**	

			beneficiaries developed for piloting and the pilot in 3 oblasts started *(input)*		**beneficiaries completed in 3 oblasts***(input)*	**beneficiaries implemented nation wide** *(input)*	
Results Area 2: Improved administration of benefits and services through: ***D.*** *Improved oversight and control*	**DLI D1** US$20.0 mn **Social Inspectorate established at the Ministry of Social Policy** *(output)*		**DLI D2** US$10.0 mn **Inspection of 80% of all GMI beneficiaries' cases is completed** *(output*	**DLI D3** US$10.0 mn **Inspection of GMI program is completed based on analyzed discrepancies found during data exchange with external databases, and proposals regarding remedy actions and error corrections are provided** *(output)*	**DLI D4** US$10.0 mn **Two thematic inspections: one for GMI and one risk-prone social assistance program is completed using an adequate risk-profiling system** *(output)*		3. System to prevent, detect, deter and monitor errors, fraud and corruption (EFC) is in place *Baseline: Lacking system to prevent, detect, deter, and monitor errors, fraud, and corruption*
E. *Improved collection of program information (MIS)*		**DLI E1** US$10.0 mn **70 percent of Local welfare offices process applications for social assistance benefits in new MIS***(output)*		**DLI E2** US$5.0 mn **A performance monitoring module for social benefits is operationalized in MIS** *(intermediate outcome)*	**DLI E3** US$5.0 mn **The MIS expanded with a module for social services and module is tested in 2 oblasts** *(output)*	**DLI E4** US$10.0 mn **The MIS that process benefits and social services is operationalized national-wide** *(output)*	4. MIS collects social assistance and service programs' information nationwide *Baseline: MIS piloted in 2 of the 27 oblasts*
Results Area 3: Enhanced provision of family-based care to support orphans and children deprived of parental care, families in		**DLI F1** US$5.0 mn **Legal framework adopted for residential care**			**DLI F2** US$10.0 mn **Number of children in residential care**		5. Number of children de-institutionalized and moved to alternative forms

need and vulnerable families through: *Increased provision of day-time services and alternative care as opposed to residential care institutions*		**transformation and family-based care development for orphans and children deprived of parental care** *(output)*			**institutions in three pilot oblasts decreased by 40 percent compared to baseline[1]** *(intermediate outcome)*		of care in three selected pilot oblasts increased by 40 percent <u>*Baseline:2013*</u>[1]
Total target value of disbursements for each year (Component 1)	2 DLIs Target amount US$40.0 mn	4DLIs Target amount US$25.0 mn	2 DLIs Target amount US$50.0 mn	3 DLIs Target amount US15.0 mn	5 DLIs Target amount US$55.0 mn	1 DLI Target amount US$25.0 mn	Component 1 Total US$200.0 mn

[1] The GoU has select four oblasts for which the assessments of existing institutions and services will be made and action plans for de-institutionalization will be developed by April 2014 with financing from an ECAPDEV grant. With action plans available, a detailed explanation of de-institutionalization completion stages will be provided.

Disbursements will reimburse incurred eligible expenditures and will be triggered by achievement of results, which are grouped into three Results Areas (see Table 2). In each of these Results Areas, there is a series of results chains that contribute to the achievement of the PDIs, and ultimately the PDO. Along these "results chains," some of the critical inputs, outputs, and outcomes have been selected as DLIs. A total of 17 DLIs have been discussed with the GoU and are detailed in a matrix format in Table 2. Among the 17 DLIs, two are considered as intermediate outcomes; 12 are considered as outputs, and three represent inputs. The results chains from Table 2 would be supported by the investments in inputs under Component 2 and 3. The Project Operational Manual (POM) would include detailed protocols for the procedures for monitoring and verifying achievement of the DLIs. Adoption of the POM by the MoSP that is satisfactory to the World Bank would be a project effectiveness condition.

Results Area 1: Increased access of extreme poor to the GMI program. The Project will support an increase in GMI program coverage, an improvement in its eligibility criteria and procedures to preserve or improve its targeting accuracy amid expansion, and the deployment of a package of activation measures for work-able GMI beneficiaries to support their transition from assistance to employment. The project will co-finance the expansion of the GMI program from about 160,000 beneficiaries in September 2013 to 300,000 in Year 6 of the project by disbursing loan funds against achievement of DLI A1-A4. To counteract the possible deterioration of targeting accuracy while the program expands, another DLI rewards the improvements in eligibility criteria that would lead to maintaining GMI targeting performance, while simplifying these procedures such as the cost of administering them both for administrators and beneficiaries is reduced. The revision of eligibility criteria will rely on a simulation model of eligibility determination (e.g. using HBS 2013), where predicted targeting accuracy using alternative eligibility criteria will be compared with the predicted targeting accuracy of existing criteria. The changes in eligibility criteria to be simulated will include the definition of the assistance unit, the administrative definition of income and assets used in the means-test, rules for taking into account informal incomes, income and asset disregards, recertification period and rules, and co-responsibilities. Recognizing that the best protection against poverty is through employment, the project would help develop, pilot and implement activation services to work-able GMI beneficiaries nationally. The project will support activities related to activation of GMI beneficiaries through DLI C1-C3. A summary of GMI projected expansion and funding is presented in Tables 3 and 4.

Table 3. Performance of extended GMI, 2012-2019

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
No of HHs receiving GMI, thousands	99	159	181	230	250	280	290	300
No of individuals receiving GMI, thousands	402	586	671	864	945	1,051	1,076	1,102
Coverage, on average per month, (%)	0.9	1.3	1.5	1.9	2.1	2.3	2.4	2.5
Average benefit per HH, per year, nominal prices		24970	28053	33365	36406	39011	41266	43911
Average benefit per HH per month, real (2012) prices		2075	2285	2303	2349	2432	2485	2555
Share of HHs that receive GMI in poorest decile, <u>on average per month</u> (%)	4.3*	5.1	5.9	6.9	7.3	8.0	8.1	8.4
Share of individuals that receive GMI in poorest decile, <u>on average per month</u> (%)	4.9*	6.2	7.3	8.5	9.1	9.8	9.9	10.1
Share of HHs that receive GMI in	8.8	7.3	8.4	9.7	10.4	11.4	11.5	11.9

	2012	2013	2014	2015	2016	2017	2018	2019
poorest decile, per year (%)**								
Share of individuals that receive GMI in the poorest decile, per year (%)**	10.2	8.9	10.3	12.0	13.0	13.9	14.1	14.4
GMI budget, nominal prices (Mn UAH)	2,102	3,963	5,078	7,674	9,102	10,923	11,967	13,173
GMI budget, 2012 real prices (Mn UAH)	2,102	3,951	4,963	6,357	7,046	8,170	8,649	9,198
GMI budget as % of GDP	0.15	0.28	0.34	0.44	0.49	0.54	0.56	0.57
Targeting of benefits, first decile	58.4	51.0	49.8	46.3	46.5	45.0	44.6	44.8

Source: World Bank estimates based on HBS 2012
Notes:
The simulation of the GMI expansion takes into account the increased participation in the program due to higher eligibility thresholds and benefit levels. The model assumes that coverage will not increase due to stronger outreach efforts. The targeting accuracy reported in the Table is a lower-bound estimate, based on the assumption that eligibility criteria will not change except for the Minimum subsistence level. In particular, the model does not include the potential improvements of targeting accuracy due to the revisions of eligibility criteria planned for 2016, nor at a result of the social inspection carried on from 2016 onward.
** The average monthly coverage for 2012 is estimated based on the annual coverage from HBS, adjusted by a constant equal to the ratio of the average number of HH beneficiaries per month from admin data and the number of HH beneficiaries from the HBS (0.5 during 2012). On average, more households report receiving GMI during a year than in any given month, due to the inflows and outflows from the program that occur during the year.*
*** The indicators for 2013-2019 are estimated as the values of the indicators on average per month multiplied by a constant equal with the ratio of the total number of annual beneficiaries in 2012 survey, to the maximum number of beneficiaries per month in 2012 (1.42).*

Table 4. World Bank co-financing the GMI' extension costs

Calendar years	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Projected budget for GMI *(million USD)* *****	600	830	1020	1270	1480	1940
Indicative disbursements under Component 1	20	40	30	20	40	50
IBRD funds as a share of GMI's budget, %	3	5	3	2	3	3
IBRD funds as a share of annual GMI budget	15	17	16	8	19	11

Results Area 2: Improved administration of benefits and services. Within this results area, eight DLIs were selected to reward progress along the results chains. First, four DLIs, namely DLI D1-4, will support the development of effective and efficient system to detect, deter and prevent error and fraud in the social assistance system. Reducing the level of spending lost due to error or fraud will reduce the cost of social assistance and will positively impact its fiscal sustainability. The proposed project would support the GoU in establishing a new service—the Social Inspectorate—and strengthen its capacity to effectively identify and correct benefit irregularities related to instances of errors and intentional (fraudulent) misreporting of circumstances that have an impact on eligibility or level of benefit, such as income, assets, disability status, of family composition. *Four other DLIs***,** namely DLIE1-4, will support the roll-out of the MIS, its expansion to cover social services in addition to social benefits, and its use for both operational decisions and for policy making.

Results Area 3: Enhanced provision of family-based care to support families in need and vulnerable families. This results area is aligned to the National Strategy for Ensuring the Rights of the Child and Family Support the GoU adopted in 2012 to support de-institutionalization. To create services for children outside public institutions will require a legal and regulatory framework to be put in place that would include service standards, fiscal instruments, tender procedures for outsourcing social services to private companies, NGOs. This development will be supported by DLIF1. Another DLIF2 will track progress in transforming and downsizing residential care children institutions as well as creation of alternative forms of care (foster parents, guardians, relatives who obtain legal custody, family foster homes, special treatment foster homes, etc.) in four selected oblasts. To support the implementation of this reform agenda, the GoU received an ECA Capacity Development grant to elaborate a detailed plan for modernizing the system of social services and transforming residential care for children in two selected oblasts. The UK charity organization together with Ukrainian partners is preparing similar plans in another two oblasts. The implementation of these action plans in four oblasts will be supported by Component 3.

Component 2. Supportive investments for institutional strengthening for administration of social assistance and social services (US$ 80 million). This component will finance provision of goods, non-consulting services, consultants' services and training to support strengthening the institutional capacities of MoSP and local offices to implement and monitor benefits and service. These investment and technical assistance are necessary, but not sufficient, conditions to achieve the results indicators under Results areas 1 and 2; they will be complemented by the MoSP own efforts. This component helps develop institutional capacities at central, oblast and local levels needed to support the reforms of benefits and services.

Specifically, Component 2 would be organized around the following five sub-components:

2.1. **Supportive investments for strengthening institutions and improving information management.** A good MIS is the backbone of a well-functioning social protection system. Ukraine has developed such an integrated MIS called IASSPP under the SASMP, which will be rolled-out nationwide in 2014-2015. The system uses an open architecture that would enable the expansion of the MIS in terms of business functions (or modules) and integration with other systems operated by the MoSP or other public and private bodies. The project will finance MIS improvements and extensions of functionalities that typically emerge after MIS becomes operational. Namely, it will finance (i) transformation of MIS into web-based system; (ii) application software development to include modules aimed to automate business processes for social services delivery using one-stop-shop business model, automate business processes for social inspection activities, and improve automation of processes used for full and comprehensive accounting of data regarding orphans, children deprived of parental care. and children in difficult living conditions, as well as to modernize the Unified state registry of privileged citizens, and development of integrated information security system; (iii) provision of hardware and standard software, office equipment, furniture and installation of local area network for MoSP, selected governmental bodies of all levels responsible for social protection of population, families and children and for around 738 centers for social services for families, children and youth and 744 offices for children affairs, 732 territorial centers, 324 resident homes, 216 centers for rehabilitation of disabled and 98 centers for the homeless; (iv) training of local level social workers of these offices to operate new MIS and on new models for social work

2.2 **Supportive investments for developing, establishing and implementing mechanisms to strengthen oversight and controls.** The MoSP has developed the concept of the Social Inspectorate that will become the part of a central agency or department and expects to implement it in 2014. Ukraine has sound foundations to develop, rather quickly, the appropriate institutional arrangements to reduce errors and fraud in the SSN and reap the results of this investment. First, it already has an almost adequate number of social inspectors, which is one of the critical inputs for the oversight and controls task. Second, effective work of Social Inspectorate is based on good data, stored under an electronic MIS. Currently, a pilot MIS exists that, when deployed, could assist in making oversight and control work more efficient. The project will provide financing for developing, establishing and implementing mechanisms to strengthen oversight and controls, through (i) revisions in legislation and regulations related to the status of Social inspectorate and their investigative powers, recovery of over-payments and sanctions policy; (ii) development of operational manuals for the social inspectors; (iii) training of social inspectors; (iv) assistance in conducting one thematic inspection per one of risk-prone social assistance program; (v) development of risk-profiling system and assistance in conducting one thematic inspection using an adequate risk-profiling system; (vi) establishment of hot-line to serve as a channel of redress; (vii) provision for the Social Inspectorate of the necessary office equipment, vehicles, furniture and hardware. A detailed action plan to achieve efficiency gains from Social Inspectorate operations is presented in Table 5 below.

2.3 **Developing new business models for administering benefits and services.** The project will finance (i) development of institutional framework for outsourcing services; (ii) development of service delivery standards for administration of benefits and services and social patronage of families in difficult living conditions; (iii) development of options to support the beneficiaries' graduation agenda, through development of activation measures.

2.4 **Improving communications, promotion and outreach.** The proposed project would support the development and implementation of a solid communications and outreach strategy to support GMI expansion and child de-institutionalization reform.

2.5 **Project Coordination and Management**. This sub-component will include provision of project implementation support, including technical assistance to manage and monitor financial management and procurement and implementation of de-institutionalization plans and service outsourcing in selected oblasts. The project will finance operating and training costs[21] of the Project Management Group and some of the USIF operating costs.

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[21] "Operating Costs" means the PMG's and USIF's reasonable and necessary incremental expenditures related to the management and implementation of the Project, all based on periodic budgets acceptable to the Bank, including on account of vehicle rental; rent of premises; miscellaneous utilities; bank charges; stationary and office supplies and equipment and hardware and their repair; upgrading of software; operation, maintenance and spare parts of equipment; consumables; transportation; local and international travel; communication and advertisement costs; printing and publications (electronic and/or paper); translation; and other expenditures as may be agreed with the Bank, but excluding consultants' services and salaries or honoraria of officials and employees of the Borrower's civil services

Table 5. Action plan to achieve the effectiveness and cost-efficiency of the Social Inspectorate to be supported by the project:

Step 1:

- Solve the institutional misalignments. Change the status of the SI as being part of a central agency or department, with the only role to protect the integrity of the benefit system.
- Revise the legislation and regulation re: their status (centrally subordinated) and investigative powers. Develop clear operational manuals for the SI team (to increase professionalism and prevent abuses). Improve the legislation on recovery of over-payments and sanction policy.
- Train the SI team in legislation; investigative techniques; develop a professional cadre of staff with the sole role of bringing back the budget money spend on erroneous or fraudulent claims.
- Ensure the pre-conditions for improving the effectiveness and cost-efficiency of the SI team in the future, by developing and implementing an end-to-end monitoring system, that documents how the sample of cases has been selected; the results of each inspections; the remedial recommendations and sanctions applied; the amount of over- and under-payments; and then follows up on the recommendations after a number of months. A small intelligence unit within the SI team staffed with statisticians, ICT specialists and senior Social inspectors.
- *Final output*: *An effective SI team is in place: adequately staffed, trained, with satisfactory investigative powers and institutional subordination, operating uniformly across all territory and types of SA programs based on a clear, detailed operational manual.*

Step 2:

- Implement a number of large sample inspections in all SA programs that have, a priori, a high risk of EFC. With the existing workforce, the administration could cover a large SA program in one to two months' time, and carrying on ex-post eligibility checks by verifying the documentary evidence and, when needed, following up with home visits, employment visits and the collection of other types of information and evidence. These inspections will create a baseline of the amount of irregularities in the system. The results of these exhaustive benefit reviews could then be analyzed to identify types of beneficiaries, or LWOs, with EFC rates higher than average and then target the inspections to these groups. These inspections will also reveal a subset of behaviors or circumstances that facilitate EFC in specific SA programs (the vulnerabilities of the benefit system). Once the results of these inspections are stored into a database, or an MIS module for the SI team, they can be used for analysis, to identify the beneficiary types that have high risk of EFC (risk profiles); the circumstances that facilitate EFC; and to develop countermeasures to safeguard the program against the risk of EFC.
- *Final output: At least one large sample inspection carried on for one high-risk social assistance program, with the results of the inspections adequately reported in an inspection report.* The inspection report should describe the inspection process (from planning and prior assumptions about potential causes of EFC; to the implementation of the inspection; to the results of the inspection process; and with an analysis of the EFC detected in terms of high risk groups). Regular (quarterly) monitoring report that follows up on the recommendations of the social inspectors for beneficiaries and LWOs; showing the status of the implementation of the recommendations, as well as an exhaustive list with suspicion of fraud or corruption and their status within the prosecutorial / judicial system.

Step 3:

- To increase the cost-efficiency of the SI process, the future inspections should be targeted to high risk groups of beneficiaries, rather than being exhaustive or random. A cost-effective way to filter the pool of beneficiaries and generate suspicions of EFC is through large scale data matching. The data matching processes would compare whether the household circumstances that entitle households to benefit and that were declared and/or documented to the LWOs are similarly held or reported to other public databases. The key databases of interest include the pensions and unemployment databases (with records on formal wages; pensions and unemployment benefits received); the tax registry (with records on a broader range of incomes); the civil registry (with information on identify of the individual claimants and family affiliations, births and deaths); as well as property registry (land cadaster, other taxable property). A precondition for this activity is the deployment of the SA MIS in all LWOs, and the ability of the MoSP to enquire and use the national database; the signing of data exchange protocols between the SI intelligence unit and the other administrators of public databases (with appropriate protection of the data held in these databases); the development of the software for data cross-checks; and of the regulations and internal protocols that define how the data irregularities would be checks and remedied by the SI team. Targeting the SI to those beneficiaries whose documentary evidence is different in the SA MIS than in other public databases will increase the effectiveness of the inspections. Once the referrals from data cross-checks are introduced in the practice of the inspections and these are carried on, the results would be described in the Inspection reports.

- *Final Output: At least one inspection per risk-prone social assistance program is carried on using the referrals generated by the data cross-check system (between the Social Assistance MIS called IASSPP, and the databases operated by the Pension Fund, Unemployment Fund, Civil Registry and Tax Registry).*

Step 4:

- Over time, the results of inspections would allow the intelligence unit of the SI team to fine-tune the risk analysis for each social assistance program. At the beginning, some of this analysis will mainly be descriptive: e.g. what are the main types of irregularities detected after each SI. By blending the insights of the social inspectors with the (statistical) analysis of the results of the inspections, and by enlarging the information base for this analysis, the SI team would develop sharper risk profiles of beneficiaries and service delivery units. These would allow classifying the caseload into classes of risk of EFC (e.g. green for low incidence of EFC; yellow for moderate; red of high incidence/ probability of EFC). A cost effective inspection process would cover all red cases, a fair sample of yellow cases, and a very low sample of green cases. By documenting the sampling for the thematic inspection, the intelligence unit would be able to extrapolate the results to the whole caseload of the program. This information could provide the basis for a robust, comparable, reliable monitoring system of the level of EFC in the benefit system.
- *Final Output: At least one inspection per GMI and per another risk-prone social assistance program is carried on using an adequate risk-profiling system.*

Component 3: Supportive investments for increasing provision of family-based care to support orphans, children deprived of parental care, disabled children and vulnerable families (USD$ 20 million) in four oblasts. This component investments to support: i) childcare de-institutionalization by providing orphans and children deprived of parental care with a family environment through foster care, adoption and placement in family-type homes; ii) transformation of residential institutions, and iii) purchasing of new services from private providers for vulnerable families. These investment and technical assistance are necessary, but not sufficient, conditions to achieve the results indicators under Results area 3; they will be complemented by the MoSP own efforts. All these activities will be implemented in four selected oblasts according to the action/ transformation plans of transforming residential care in family based care. Two such plans are being developed under the ECADEV Grant for preparation of the Project. Another two plans will be developed through technical assistance under the loan. Specifically, this component will finance goods, works, services, equipment and furniture for family home and internets as well as needed training and retraining of the social workers.

Annex 3: Implementation Arrangements

Institutional and Implementation Arrangements

As the central government body responsible for social assistance policy development, the MoSP would be the main implementing agency for the Project. The Project will be the third project financed by the World Bank and executed by the MoSP. The project will use the same implementation arrangements as under SASMP that proved to be effective: the Deputy Minister of the MoSP will be made responsible for overall project implementation and will lead the Project Management Group established in the MoSP to guide implementation and make decisions. This level of leadership of the PMG will be reflected in the POM. Additional technical assistance and expertise required to implement project activities will come from external consultants hired by the MoSP. The team of consultants hired under the ECAPDEV grant that are helping the MoSP to prepare the Project will continue working on the Project. The current core team of consultants comprises a Procurement Specialist, an FM Specialist and a Project Adviser responsible for the preparation of a POM. The existing arrangements for procurement and financial management under the ongoing ECAPDEV Grant will also be applied for the Project, given the satisfactory level of performance of the current staff, which is well-trained and experienced. Enhanced procurement expertise and controls will be applied, given the high governance risks in Ukraine. Oblasts' State Administrations will play a supervisory role in project implementation but will not execute any of the project activities.

Renovations of building of family homes and *internats* (minor civil works) under Component 3 of the Project will be delegated to the Ukrainian Social Investment Fund (USIF). USIF is a nonprofit institution created by the Cabinet of Ministers' Resolution in year 2000. The proposed flow of funds will remain within the framework of the State Treasury Service system of Ukraine**.** Civil works, supervision of civil works performance and minor new constructions needed for transformation of institutions for orphans and disabled children under Component 3 will be procured by and financed through the USIF. USIF possesses adequate fiduciary capacity to ensure compliance with World Bank procurement and financial management rules, as well as requirements on the environmental and social safeguards. USIF will be designated as a recipient of the state budget funds and enter the Administrative Agreement between USIF and MoSP. This Administrative Agreement between the MoSP and the USIF will set the division of responsibilities between them in implementing renovations under Component 3 of the Project; payment procedures, accounting and reporting. USIF will use a tripartite agreement to govern the relationship between USIF (a payer/customer), a family house or *internat* (owner/property holder/beneficiary) and a construction firm (executor).

Financial Management, Disbursements and Procurement

Financial Management

The financial management assessment of the Project confirmed that the FM arrangements are satisfactory, subject to completion of the Action Plan, outlined in below. Both MoSP and USIF have extensive experience in financial management requirements of World Bank-financed projects. The financial management consultants of both MOSP and USIF will work in close coordination with the financial staff of MoSP, as well as with the MOF. The capacity of the MoSP has been strengthened by an FM consultant, who is currently responsible for FM arrangements under the ongoing ECAPDEV Grant.

Following is the list of key actions that have been agreed:

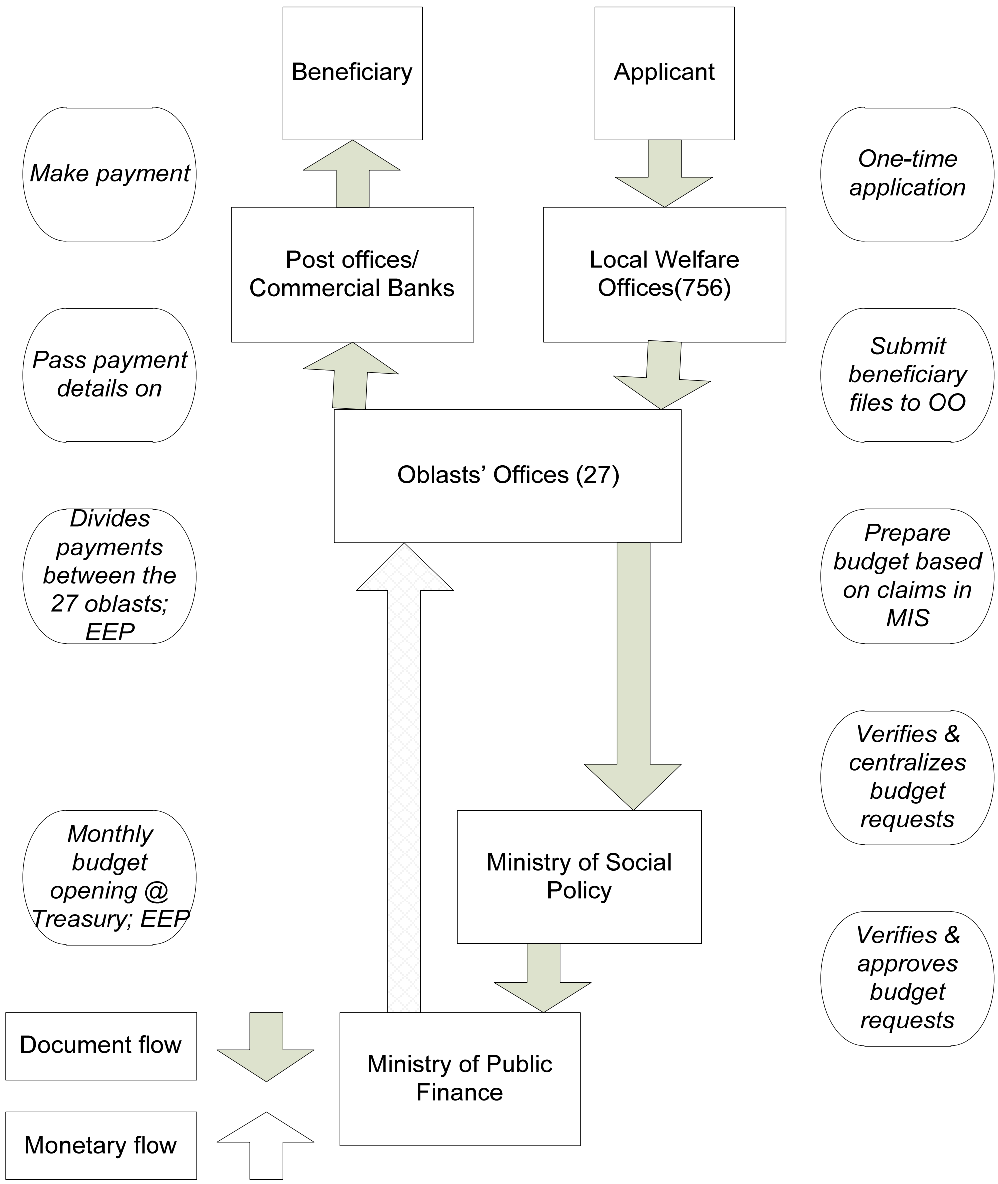
Action	Responsible	Timeline
Draft Administrative Agreement between MoSP and USIF prepared	MoSP and USIF	Condition of Negotiations
POM, including separate sections on: (1) Component 1 and DLI-based disbursements; (2) MoSP components; (3) USIF component; and (4) MoSP overall coordination role prepared	MoSP and USIF	Condition of Effectiveness
Administrative Agreement between MoSP and USIF approved	MoSP and USIF	Condition of Disbursement

Component 1 of the proposed project would rely on the Government's existing financial management architecture for the GMI that is the Eligible Expenditure Program (EEP). Specifically, the proposed project would rely on the benefits payments system and the Government's budget management and reporting systems. Based on the reports generated by the MoF and MoSP monitoring report on GMI execution, the World Bank will reimburse the Government for a share of expenditures on the Eligible Expenditure Programs (GMI) when certain results (DLIs) have been achieved and verified. Disbursements from the proposed loan would be part of the regular state budget financing, with the World Bank as one of the sources of overall funds, spent consistent with the state budget policies and procedures. To enable the World Bank team to monitor progress in releasing resources for these programs, the State Treasury and MOSP would submit semi-annual reports on the execution of the State Budget regarding the above-mentioned GMI program as following:

- *Reports on spending of GMI benefits prepared by the MoSP* based on internal MoSP monitoring system. The reports will include initial balances, amounts calculated and transferred, and closing balances by oblasts;
- Reports on one *expenditure line item execution by the MoF*. These reports will include the annual planned budget, planned budget for the reporting period, budget executed, expressed in UAH and percentage from total amount.

The architecture of the GMI Program has been assessed by the World Bank and has been found to: (i) perform with adequate levels of transparency; (ii) function under an adequate system of checks and controls; and (iii) produce reliable financial and budget execution reports. The World Bank also reviewed the system of benefits payments managed and executed by the State Treasury through rayon and city welfare offices who transfer the amount of benefits to the Ukrposhta, or commercial banks indicated by the beneficiary, including at the village level, and observed that an adequate series of controls, checks and reconciliations are regularly performed in an effort to limit the incidence of incorrect payment (schematically presented in chart 1 below). In addition, the World Bank assessed the systems of reconciliation and checks between the rayon and central government levels, found this overall system to function well.

Chart 1. Flow of funds under the GMI program



Auditing arrangements. The Accounting Chamber of Ukraine (Ukraine's Supreme Audit Institution) has undertaken and completed several operational and financial audits of the GMI Program. The Accounting Chamber is assessed as capable and has agreed to undertake financial statements and performance audits of the program to meet the World Bank's audit requirement. Requirements will be reflected in terms of reference acceptable to the Bank. Respective audit reports shall be published by the borrower as required by the World Bank's Access to Information Policy.

Performance audit. The ACU, or such other entity, acceptable to the Bank, as the Bank may agree, shall carry out, in a manner satisfactory to the Bank, performance audits of the Project, covering *inter alia*: (i) an evaluation that eligibility criteria are correctly applied and determination of whether GMI Program benefits funding reaches the intended beneficiary population; (ii) assessment of the program administration, oversight and control, including the assessment of mechanisms for monitoring and evaluation, control, institutional responsibilities and capacity, including staffing, of internal controls in the social assistance system, including efficiency of error and fraud control function, adequacy of measuring and reporting on monitoring indicators and DLIs; (iii) testing of the robustness of internal controls, integrity of fund accountability processes and effectiveness of risk management and oversight arrangements for the entire Project; and (iv) such other matters set forth in the terms of reference for such audit, as agreed with the Bank. In addition, the final performance audit shall include an IT audit of the automated social assistance information system by determining whether the system is safeguarding assets, maintaining data integrity, and operating effectively to achieve the organizational goals and objective.

Timing of Performance Audits. The first performance audit shall cover the first fiscal year of Project implementation, as agreed with the Bank, and thereafter, performance audits shall cover every two fiscal years of Project implementation. The Borrower shall ensure that the performance audit reports are furnished to the Bank not later than six (6) months after the end of each respective audit period.

Financial Statements Audits. The Financial Statements of the project shall be audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Audits shall include a review of eligibility of expenditures claimed by the Borrower and reimbursed by the Bank during the period of audit. Each audit of the Financial Statements shall cover the period of two fiscal years of the Borrower. The audited Financial Statements for each period shall be furnished to the Bank not later than six months after the end of the period. Notwithstanding this arrangement, the Bank may, if it deems necessary, request the Borrower to furnish annual audits of the Financial Statements. Such annual audits of the Financial Statements shall be furnished to the Bank not later than six (6) months after the date of the Bank's request.

Disbursements under Component 1 will be triggered by achievement of the results, which are grouped into three main results areas. A total of 17 DLIs that would evidence achievement of these results have been agreed with the government. Achievement of the DLIs will be confirmed to the World Bank according to the Protocols of compliance with DLI .Upon confirmed achievement of the specific DLI and submission of evidence of incurrence of reimbursable eligible expenditures, the USD amount linked with completed DLI will be credited to the single State Treasury Single Account of the GoU, i.e. to general fund of the State Budget. The transfer of funds will be done directly from the loan account to the State Treasury Single Account. To initiate such transfer, MoSP will prepare an Application for Withdrawal, which is then authorized by MOF and submitted to the World Bank, together with the evidence specified in the Loan Agreement and Disbursement Letter.

Traditional FM and disbursement arrangements have been put in place at MOSP and USIF for implementation of Components 2 and 3. Details on division of responsibilities, budgeting, accounting and reporting arrangements, internal controls and audit requirements at MoSP and USIF are provided below:

The following financial management arrangements have been agreed at MoSP:

Budgeting. The MoSP's FM consultant, in close coordination with the MoSP financial department and MOF, will be in charge of project budgeting, including inputs for inclusion of the project funds in the State Budget as well as quarterly planning of funds flows for disbursement purposes. MoSP will prepare budget information consolidated for Component 1 and 2, with inputs from USIF. Requirements of the national legislation and State Treasury procedures will be closely followed.

Accounting. Project accounting records will be maintained on a cash basis with disclosure of commitments and in accordance with the National Accounting Standards in the records of MoSP. MoSP's FM consultant will keep detailed project records for MoSP-implemented activities, including accruals, payments and account balances, including data in the currency of payment and relevant USD equivalent.

The accounting records will be maintained in the accounting software IC-PRO installed for the FM consultant's use, which is directly linked to the accounting records of MoSP. A separate set of accounts will be used for project records, and it will not be mixed with other accounting data of MoSP. The accounting software IC-PRO currently does not allow keeping records of the USD equivalent of non-USD payments and does not allow automated reporting. These additional modules will be added within one year after project effectiveness. Additionally, MoSP's FM consultant will keep accounting records of the activities implemented by USIF on the aggregate level, i.e. advances made to the USIF account in the State Treasury, aggregate value of reported expenditures, and balances of USIF's account. On the basis of detailed records and USIF aggregate data, quarterly FM reports will be prepared by the MoSP.

Reporting. MoSP's FM consultant will be responsible for preparation of the consolidated project IFRs on a quarterly basis. The IFRs will provide information on project disbursements by component and by executing agency, at a level of detail acceptable to the Bank. Disbursements on Component 1 will also be part of the reporting. Additionally, periodic reports will be prepared as required by current Ukrainian legislation. MoSP's current reporting system, Best-Zvit, allows preparation of some of the reports automatically; with the exception of IFRs. Additional functionality may be added to the software program during implementation to allow automated generation of IFRs.

Internal controls. Internal controls will comprise, but not be limited to the following: division of responsibilities between MoSP and USIF, segregation of duties of staff within MoSP and USIF, periodic reconciliation of accounting and reporting data, verification and authorization of reports and documents. The key features of internal controls are mentioned in respective sections, and the details on internal controls will be provided in the project POM. Procedures for acceptance of goods and services in Component 2 and 3 will be specified for each activity.

Auditing. Audit of project financial statements for Component 2 and 3 will be part of the audit of consolidated project financial statements. The audited project financial statements will clearly present project expenditures by each component, and by implementing agency. Performance audit of Component 2 will focus on (i) testing of the robustness of internal controls, integrity of fund accountability processes and effectiveness of risk management and oversight arrangements for the entire Project; and (iv) such other matters set forth in the terms of reference for such audit, as agreed with the Bank.

The following financial management arrangements have been agreed at USIF:

Organization and staff. USIF's specific area of expertise is in undertaking small projects and in carrying out repairs in various organizations and offices, which is what USIF will be engaged to do under Component 3. USIF has a chief accountant, an accountant and a financial specialist each with over seven years' experience in their respective areas, and familiar with the World Bank financial management and disbursement procedures.

Budgeting. USIF will sign an agreement with MoSP for implementation of renovations under the Component 3. USIF will be designated as a recipient of the state budget funds by the Administrative Agreement between MoSP and USIF that will be developed prior to negotiations. The Administrative Agreement between MoSP and USIF will establish the key provisions for USIF's functions in project implementation, and highlight areas which deviate from existing legislation. As the USIF will become a budget fund recipient, USIF will follow the standard budgeting procedures for inclusion of its budget in the special fund of the State Budget of Ukraine. USIF will work with MoSP on all budgeting issues, as MoSP will be the main budget holder for this program.

Internal controls. Further details as to the specific procedures and division of responsibilities between MoSP and USIF will be provided in the POM, which will be discussed before negotiations, and adopted prior to the project effectiveness (*effectiveness condition*). The Project POM will also provide details as to the internal control structure, including segregation of duties, reviews, reconciliations, etc. One of the important controls in the course of project implementation will be hiring a technical supervision consultant for each of the repair contracts financed under this component. Thus, USIF will be able to monitor and reconcile the flow of funds on a regular basis.

Accounting. USIF has sophisticated accounting and reporting systems for project implementation, namely 1-C version 7.7. In addition, USIF plans to install 1-C version for budget organizations specifically for the implementation of the proposed Project.

Reporting. USIF will prepare and submit unaudited quarterly reports (IFRs) to MoSP, for further consolidation into consolidated project IFRs. USIF will have access to Client Connection, and will verify the reports to the World Bank prior to their submission. In addition, USIF will prepare and submit regular reports related to project implementation to MoSP as required by local regulation.

Auditing. Project expenditures incurred by USIF will be covered by the annual audit of consolidated project financial statements, and USIF will cooperate with the auditor. An Entity audit of USIF will not be required. The performance audits of Component 3 will focus on (i) testing of the robustness of internal controls, integrity of fund accountability processes and effectiveness of risk management and oversight arrangements for the entire Project; and (iv) such other matters set forth in the terms of reference for such audit, as agreed with the Bank.

Traditional disbursement procedures would be used to execute expenditures supporting the implementation of activities under components 2 and 3, including Advances, Reimbursements, Direct Payments and Special Commitments. IBRD funds would be disbursed to the project Designated Account in USD opened by the State Treasury Service in UkrEximBank. Based on the project needs, MoSP will prepare requests to transfer part of the funds to be deposited into MoSP's account in UkrEximBank in USD. This account will be used to arrange for payments in non-UAH currency to foreign suppliers or these funds will be converted in UAH to be deposited into MoSP's registration account in the State Treasury Service in UAH and used to arrange for payments to national suppliers. A portion of the funds in UAH will be transferred from MoSP's account in the State Treasury Service to the account of USIF in the State Treasury Service, upon the request of USIF. USIF will be designated as a recipient of budget funds in the Administrative Agreement between the MoSP and USIF that will be approved for implementation of the Project. The proposed flow of funds will be within the framework of the State Treasury Service system of Ukraine. Withdrawal applications to request advances, to report expenditures, to arrange for Direct Payments, and open Special Commitments will be authorized by the following two stakeholders: MoSP and MOF. Payments from the MoSP's account in UkrEximBank in USD and its account in the State Treasury Service in UAH will be authorized by MoSP. Payments from USIF's account in the State Treasury Service will be authorized by USIF but require approval from MoSP. Reports to document expenditures will be prepared by MoSP for all the expenditures paid by both USIF and MoSP, using the sample SOE format attached to the Disbursement Letter. Direct payment and Special commitment payment mechanisms will follow the standard World Bank procedures.

Procurement

Since Component 1 of the Project will only co-finance cash transfers under the GMI program, procurement of goods, works, non-consulting and consulting services will apply to the activities in Components 2 and 3. The Project uses the IPF instrument, with a results-based approach adopted in Component 1. The results-based portion, in the amount of US$200 million, will be disbursed against achievement of pre-defined DLIs. Component 2 and 3, in the amount of US$100 million will be disbursed using traditional disbursement instruments.

The Project will be implemented by the MoSP, with the support of the group of consultants, and, in part, by the Ukrainian Social Investment Fund (USIF). MoSP has established the Project Management Group headed by the Deputy Minister and reinforced it with externally hired consultants to implement the ECAPDEV Grant approved to finance preparation of the Project. The Project Management Group, composed of the heads of MoSP's departments, was created to review and approve key documents, including procurement documents in the framework of the Project. The Competitive Bidding Committee composed of representatives of MoSP, MoE and MoF has been formed and is currently functioning to support implementation of the project preparation grant. The Deputy Minister of MoSP is appointed as the Project Coordinator and is the head of the Project Management Group and the Competitive Bidding Committee.

Procurement specialist, hired to support MoSP with implementation of the ECAPDEV Grant is experienced in World Bank procurement rules and procedures and will continue assisting MoSP in all of the Project's procurement aspects.

USIF is a nonprofit institution created by the Cabinet of Ministers' Resolution in year 2000 and has extensive experience in implementation of community participation projects. USIF has regional offices and experienced procurement staff at both regional and central levels. USIF has both developed operational manual, procurement manual and Bidding Documents for procurement of small works, goods and selection of consultants and used them for thirteen years. These documents were elaborated in 2000, and last updated in 2006. Under Component 3, USIF will help the MoSP to procure and manage contracts for renovations and reconstructions of the premises of internats and family homes in four pilot regions (Chernihiv, Zhytomir, Donetsk, Dnipropetrovsk). The terms and conditions for provision of these services will be stipulated in a separate internal administrative agreement between MoSP and USIF. The World Bank procurement specialist under the team will review the sample agreement to make sure it has a reference to the Bank's Procurement& Consultant Guidelines and Anti-corruption Guidelines. The World Bank team together with the MoSP will elaborate the mechanism for a regular physical technical inspection of the delivered goods, works and services under components 2 and 3 to mitigate the fraud and corruption risks identified in the ORAF.

The World Bank's team conducted a procurement capacity assessment of MoSP and USIF focusing in particular on the review of current and past procurement practices, procedures and experience. The overall procurement risk is rated substantial and the residual risk is moderate after implementation of the discussed and agreed mitigation measures. The detailed procurement capacity assessment is provided in the Procurement Risk Assessment Module (P-RAMS[22]). The following main risks have been identified: (i) insufficient procurement capacities, including technical expertise required for preparation of the Bidding Documents, Evaluation of Bids and contract management by MOLSP; (ii) lack of clarity on decision-making and approval authorities under the project; (iii) possible delays in project implementation because of unavailability of the technical specifications and updated NCB document. The development of detailed procedures and processes for decision making and approval authorities under the project is in progress and will be finalized in POM before negotiations. The World Bank tem will review the POM before negotiations.

[22] Link to the project assessment is http://projportal.worldbank.org/servlet/secmain?pagePK=64892084&menuPK=60327&perform=riskAssessmentAction&PSPID=P128344&deliverableID=DLV0103018).

The following mitigation measures, to be completed *during project preparation*, include the following: (i) elaboration of a Procurement Plan for the entire project implementation period, including a Procurement Plan for the component implemented by USIF; (ii) elaboration of technical requirements, specifications and cost estimates for the Project's IT component.

The following mitigation measures, to be completed *by the loan effectiveness*, include the following: (i) a Project Operational Manual (POM) will be elaborated and approved by the World Bank. It will provide, in particular, for delegation of approval authorities; internal guidelines for recordkeeping of procurement documents; anticorruption guidelines and provisions related to disclosure of conflict of interests; and a code of ethics for the evaluation committee members. It will also outline the arrangements for close collaboration between procurement and FM specialists in planning expenditures, the responsibilities of the beneficiary technical experts in elaboration of the technical requirements of the Bidding Documents, evaluation of bids and acceptance of the goods and works, contract management; and (ii) USIF will update its operational and procurement manuals and the Bidding Documents to reflect current World Bank policies and procedures, in particular on anti-corruption. These documents will be reviewed and approved by the World Bank. The updated part of USIF operational and procurement manual on civil works will be included in the Project Operation Manual.

The agreed mitigation measures to be carried out *throughout* project implementation include:

(i) The procurement consultant will provide continuous assistance to MoSP in conducting procurement and facilitate communication with the Bank; and
(ii) The World Bank's procurement team will provide continuous support and guidance to the Procurement consultant and MoSP.

Procurement Arrangements

(a) Applicable Guidelines:

Procurement for the Project will be carried out in accordance with the World Bank's

- Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, published in January 2011;
- Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, published in January 2011; and
- Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits, dated October 15, 2006 and revised in January, 2011.

(b) Summarized Procurement Plan:

I. General

The draft Procurement Plan for the Project in its entirety will be developed before negotiations. The finalized Procurement Plan will be disclosed on the World Bank's external website. Throughout project implementation, the Procurement Plan will be updated, as needed, in agreement with the World Bank to reflect the actual project implementation needs. Applicable procurement procedures, their thresholds and review methods will be provided in the detailed procurement plan.

The Procurement Manual will be elaborated as a part of the POM. USIF will use their regular Operational Manual for implementation of the small works under Component 3.

The proceeds of the ECAPDEV Grant provided for project preparation will be used to finance the following tasks to allow timely launch of the procurement procedures: (i) the technical specifications and cost estimates for IT procurement packages, including hardware, software and LAN installations; and (ii) assessment of physical conditions and needs for renovations of the premises in two pilot regions. The PIU's procurement specialist will prepare the draft bidding documents and evaluation reports in close collaboration with MoSP's respective technical experts and submit them for approval by the Working Group. The procurement specialist will coordinate with the respective MoSP departments the activities on preparation of the TORs for major procurement assignments to ensure their timely implementation. MoSP will provide USIF with the approved list of premises requiring the renovations/reconstruction and information on their physical conditions. USIF will report directly to the Project Manager and will prepare the detailed Procurement Plan for MoSP's approval. USIF will be responsible for the whole procurement cycle from advertising to evaluation and contract management for the USIF portion of Component 3 and will submit progress reports on the status of implementation of the agreed Procurement Plan.

Procurement of Goods

1	**2**	**3**	**4**	**5**	**6**
Ref. No.	**Description of Assignment**	**Estimated Cost** (US$ million)	**Procurement Method**	**Review by Bank (Prior / Post)**	**Comments**
1.	Furniture for local centers for family and children and territorial centers for social services	5 .0	ICB	prior	
2.	Software	6 .0	ICB	prior	
3.	IT equipment for local offices and LAN	55 .0	ICB	prior	
4.	Small works (renovations in 4 pre-selected pilot regions)	10 .0	Shopping	sample document and first procedure will be for prior review, the rest will be for post review	implemente d by USIF
5.	Equipment for social workers	1 .0	NCB	Prior	
6.	Operating costs, including equipment for PIU	0.5			
	Total	80.0			

II. Selection of Consultants

1. **Short list comprising entirely of national consultants:** Short list of consultants for services, estimated to cost less than US$300,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.
2. **CQ application threshold** < $300,000 equivalent per contract
3. **Consultancy Assignments with Selection Methods**

1	2	3	4	5	6
Ref. No.	**Description of Assignment**	**Estimated Cost** US$ million	**Selection Method**	**Review by Bank (Prior / Post)**	**Comments**
1.	Training for staff of MoSP	4.0	QCBS	prior	
2.	Training for staff of boarding schools	1.0	QCBS	prior	
3.	Public awareness campaign	4.0	QCBS	prior	
4.	Study tours, training	1.0	Agreed Procedures	post	
5.	Project Management Consultants	2.0	IC	Prior/post	
	Total	20.0			

All technical specifications and TORs will be subject to World Bank prior review. Detailed procurement documentation will be maintained by MoSP and USIF in their project files. The detailed Procurement Plan, once agreed with the Borrower, should be published on the World Bank's website in accordance with the Guidelines.

Post-review percentages and frequency: in addition to the prior review to be carried out by the World Bank, the project team recommends to post-review at least 10 percent of the total number of contracts signed which were not subject to prior review. Procurement documents will be kept readily available for the World Bank's ex-post review during supervision missions or at any other time. It is expected that post reviews will be conducted every 12 months. A post review report would be prepared by the World Bank's Procurement specialist and filed in the procurement post review system.

Environmental and Social (including safeguards)

Any works that might be financed under the project will not involve any change in the existing footprint of facilities and all land used are public and that there are no squatters or occupants that will be involuntarily displaced, either physically or economically, therefore OP4.12 is not triggered. At the same time the project will also bring positive social impacts as the proposed activities would improve the performance of Ukraine's social assistance and social services system for low-income families, also providing better childcare services.

The main safeguards issues in the projects are expected to arise from Component 2, related to possible civil works. The project potential environmental impacts are generally expected to result from small scale, mostly indoor construction works required for refurbishing and adaptation of interior space for the accommodation of new institutions for orphans and disabled children etc. It is recognized that the project environmental and social risks are minor based on what the project was classified by the World Bank's safeguards team as Category "B" and may thus follow a simplified safeguards procedure. The Environmental Management Framework (EMF) has been prepared which outlines the Environmental Assessment relevant rules and procedures for the selected sub-projects. Once the concrete buildings to be financed are identified, Checklist Environment Management Plans (EMP) will be prepared for each identified object/site. The overall responsibility of the implementation of sub-projects which will involve civil works and respectively of appropriate procedures and principles regarding the environmental assessment, monitoring etc., lies with the (USIF. USIF has both the capacity and experience to ensure environmental safeguards while implementing civil works. It follows its Environmental guidelines which are in compliance with the WB EA requirements. The Environmental and Social Safeguards Specialists on the team will supervise EMP's implementation by USIF and monitor potential environmental impacts. The EMF has been disclosed through the USIF web page.

Monitoring & Evaluation

The MoSP will be responsible for the overall monitoring and evaluation of the Project performance, while the four Oblasts' State Administrations will be responsible for supervision of implementation of Component 3.The Oblasts' responsibility includes supervision of implementation of the master plans aimed for downsizing, closure and transformation of residential institutions and corresponding plans for implementation of new services in the respective oblasts.

With a results-based approach, monitoring and evaluation (M&E) is built into the core design of the project. Since disbursement would rely on verified evidence of achievement of the DLIs, the MoSP would be required to comprehensively monitor and report the results. The Project`s Results Framework relies on several types of data. First, it relies on the existing information system used by the MoSP to monitor the performance of the GMI. The Project will support enhancements to the MIS such that it can provide more comprehensive data on all social assistance programs and services. Second, for statistical data and longer-term monitoring (e.g., of PDIs on coverage and targeting accuracy), the Project would use the nationally representative Household Budget Survey run by the State Statistics Committee.

Annex 4. Operational Risk Assessment Framework (ORAF)

1. Project Stakeholder Risks		
1.1 Stakeholder Risk	Rating	High

Risk Description:	**Risk Management:**					
The general political commitment to reforms supported by the Project is in place; however, the lack of a coherent reform strategy in the GoU, insufficient political will to formulate a clear vision for such a strategy and ensure an appropriate level of interdepartmental coordination for implementation persist. The GoU's unexpected pullout from the signing of the EU Association Agreement in late November only increased the level of uncertainty and led to extensive political turmoil signaling an elevated risk of further delays. A new Government took office in end-February 2014 and embarked on an ambitious reform program to stabilize the economy. Improving the efficiency and effectiveness of social protection system became essential, given the nature and potential impact of important structural reforms that the new GoU is undertaking. Having a larger last-resort income program in place could assist in cushioning the impact of structural reforms, as well as respond quickly in times of crisis. The Bank's and relevant donors' interests in the reform remain largely aligned.	The Bank will intensify its discussions at the appropriate levels of the MoSP and the Cabinet of Ministers to help shape the position of the decision-makers about the need for the proposed reform, its objectives and necessary tools, as well as and specific merits of the Project which will be relevant in in this context. Particular attention should be paid to multi-party consultations involving the representatives of various government agencies so as to help them develop a coherent vision of the reform agenda and the understanding of how the Project's successful preparation and implementation can be factored in this process. Furthermore, the Project would support the MoSP in "managing the reform process" by investing into communications to build public support and ensure other stakeholders' understanding.					
	Resp: Bank	Status: In Progress	Stage: Both	Recurrent: ☑	Due Date:	Frequency: Yearly

2. Implementing Agency (IA) Risks (including Fiduciary Risks)		
2.1 Capacity	Rating	Moderate

Risk Description:	**Risk Management:**
Capacity in the implementing agency - the Ministry of Social Policy of Ukraine – or in the oblast state administrations in selected oblasts (responsible for successful implementation of	A Project Management Group strengthened with external consultants will be in place to oversee project implementation, including a procurement consultant and FM specialist competent in Bank rules and requirements. The FM arrangements at the Ministry have been assessed and are considered acceptable for implementation of the Project. Civil works in the field (transformations of residential care institutions for children) will be procured and financed through the Ukrainian Social Investment Fund (USIF), a non-commercial

residential care reform) may be insufficient to implement the proposed reforms.	organization created under a former WB project, with personnel and business procedures, including FM and procurement, found acceptable to the Bank. The Bank will deliver TA to aid the administrations of two selected oblasts in the implementation of residential care reform.					
	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:
2.2. Governance	Rating	Substantial				
Risk Description: Further changes in the MoSP management could affect commitment to the Project at the level of implementing agency and governance and transparency in the MoSP remains an issue.	**Risk Management:** It is not possible to mitigate this risk fully. However, the team has already dealt with one change in leadership and is aware that wide dissemination of information about the project is needed, as well as commitment from the MOF and Council of Ministers. To reduce the governance risk the team will enhanced procurement expertise and controls and seek expert advice from IT procurement and governance specialists.					
	Resp: Bank	Status: Not Yet Due	Stage: Preparation and Implementation	Recurrent: ☑	Due Date:	Frequency: Biannually
3. Project Risks						
3.1 Design	Rating	Substantial				
Risk Description: There may be a learning curve related to the results-based approach, which is new to the World Bank's engagement in Ukraine. The DLIs may be overly ambitious, thus affecting both disbursement and achievement of the PDO. Past engagement under the SASMP and broader country experience flag the risks associated with procurement and implementation of ICT activities/contracts. Delays in oblast-level projects are possible and may require a better coordination across the different levels of government to secure expedient and smooth implementation.	**Risk Management:** The team comprises staff familiar with results-based approaches in other countries. Significant time has been devoted to explaining the approach to counterparts. While preparing the Project, the team tried to ensure that (i) all DLIs are realistically calibrated, concrete, understandable, and easy to measure and verify; (ii) treasury and reporting systems are adequate and operational; and (iii) TA is extended as needed to support achievement of DLIs. The Project will use the national treasury and financial control systems, and so will avoid creating additional complexities. The project team will closely monitor progress on activities/contracts for additional modules for MIS, performance management and social inspection. To downplay implementation risks in the two selected oblasts, the TTL and a MoSP representative have visited the local administrations and individual institutions to confirm there is an interest and willingness to get involved and change service systems. The team will ensure that (i) transformation will be carried out in consultations with current and potential service providers, and that necessary training and assistance have been provided; (ii) sufficient public awareness has been built to support and sustain the reform of residential care in each oblast. UNICEF stands ready to provide assistance to the selected oblasts as well, complementing the Bank-funded activities.					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent: ☑	Due Date:	Frequency: Biannually
3.2 Social and Environmental	Rating	Low				
Risk Description: Component 3 that will finance investments	**Risk Management:** Renovations at Oblast level under Component 3will be administered by the Ukrainian Social Investment Fund (USIF) that was					

<table>
<tr><td rowspan="2">intended to transform existing institutions for children and help develop alternative services, possibly including renovation and works. There is a low risk of inadequate capacity to comply with the Bank rules on S&E safeguards.</td><td colspan="6">established in 2000 and is experienced in this type of work. Its guidelines on S&E safeguards have been cleared by the Bank and operating procedures for the Project investments in the selected oblasts augmented with the EMF to the Bank’s satisfaction.</td></tr>
<tr><td>Resp: Client</td><td>Status: Not Yet Due</td><td>Stage: Implementation</td><td>Recurrent: ☑</td><td>Due Date:</td><td>Frequency: Yearly</td></tr>
<tr><td>3.3 Program and Donor</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="2">Risk Description:
The success of this Project depends critically on the success of new MIS (IASSPP) national roll-out. This requires adequate provision in the State Budget.</td><td colspan="6">Risk Management:
The MIS roll-out in 70% of Local welfare office has been made a DLI indicator due in the second year of the Project to give the Client sufficient motivation and prevent delays that will jeopardize the Project activities relying on IASSPP going live. To facilitate transition from donor-supported to fully staff-run MIS, the Project Preparation Grant and Project will finance relevant inputs/TA.</td></tr>
<tr><td>Resp: Both</td><td>Status: In Progress</td><td>Stage: Preparation</td><td>Recurrent:</td><td>Due Date:</td><td>Frequency:</td></tr>
<tr><td>3.4 Delivery Monitoring and Sustainability</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td rowspan="2">Risk Description:
A results-based approach rests critically on strong M+E capacity. MoSP has proven itself capable to deliver and monitor project implementation. However, the project managers may lack ability to precisely and accurately monitor implementation under the new RBF modality. The client may need additional time and effort to learn.

Good and regular cooperation between MoSP and MoF will be essential to ensure timely payments on the Government-funded component of project costs and sustainability of project outcomes.</td><td colspan="6">Risk Management:
The SSN system comprising both benefits and services will continue to be under the responsibility of the MoSP. The Ministry has relatively good in-house M&E capacity. Moreover, its ability to monitor and evaluate SA policies and programs is expected to improve as a result of TA and other activities supported by the Project. Oblasts will also receive an intensive technical and implementation support, especially at the beginning.

The MoSP is managing several IFI-funded projects and is familiar with IFI monitoring requirements. The Ukrainian Social Investment Fund (USIF) whose procurement and FM capacity has been assessed as acceptable to the Bank will be the MoSP's technical arm in monitoring implementation and results of oblast-level projects. This Project would continue to finance TA to strengthen procurement capacity. Field-based TTL and fiduciary staff will perform regular supervision of project implementation.</td></tr>
<tr><td>Resp: Both</td><td>Status: Not Yet Due</td><td>Stage: Implementation</td><td>Recurrent: ☑</td><td>Due Date:</td><td>Frequency: Quarterly</td></tr>
</table>

<table>
<tr><td colspan="2">4. Overall Risk</td></tr>
<tr><td>Overall Implementation Risk:</td><td>Substantial</td></tr>
<tr><td colspan="2">Risk Description:
A ‘substantial’ rating has been selected for the project implementation based on the various ratings discussed above. The elements adding to this rating most are operational environment risks stemming from the political situation to take shape after the 2015 presidential election as well as an uncertain macro position and growth prospects influencing the sectoral and multi-sectoral outlook, governance concerns and also risks associated with project design entailing a new instrument and ambitious reform agenda.</td></tr>
</table>

Annex 5: Implementation Support Plan

Strategy and Approach for Implementation Support

The Project's substantial risk profile and its reform-oriented nature drives decisions regarding the implementation support strategy. Being a reform-oriented project with a substantive IT component envisioning large procurement contracts related to ICT systems and consultant services, it will require higher implementation support efforts both in terms of compliance oversight and technical support plus capacity building. The task team considered this dynamic in designing the implementation support plan, including risk management measures to be put in place to help increase the likelihood of achieving the project development objectives (PDOs).

The implementation support strategy will focus on need-based and area-specific assistance, intended to fill the gaps in the implementation capacity of the MoSP. Through the previous project, SASM, the Bank team has formed a very detailed understanding of the implementation capacity of the Ministry. For instance, having implemented SASM, MoSP strengthened its economic and planning department that used to supervise renovations of the local welfare offices and enhanced the technological and organizational capacity of its IT department to handle large and complex IT procurement. On the other hand, the leadership of the MoSP management, due diligence while monitoring project activities and coordination between all the project implementing units (MoSP management, PMG staff, MoSP departments) are still an issue.

Knowing all the above, the Bank team will invest considerable time and effort in supervising the Project activities to ensure no sub-components of the Project are temporarily forgotten or neglected and to foster better coordination among MoSP, PIU, USIF and OSAs. The World Bank team will be also strengthened by the IT procurement specialist and more IT experts if needed to supervise the ICT part of the project.

The task team will be reviewing the Implementation Support Plan (ISP) at least once a year to check if it continues to meet the implementation support needs of the Project and make adjustments if needed. During project implementation, the task team will be periodically updating the risk assessment to monitor implementation progress and the impact of agreed risk management measures, identify needs for additional measures, and to assess the emergence of new risks, possible impacts, and new risk management measures.

Implementation Support Plan

Operating Environment Support: The Bank team has maintained a continuous sector dialogue with the GoU and will continue to monitor developments in the sector, including (i) the overall spending on SA programs and individual programs for which adjustments/modifications are envisaged under the Project, coverage and targeting accuracy of these programs; (ii) introduction of performance management and development of social inspection; (iii) introduction of unified MIS for benefits and services; (iv) outsourcing social services to private providers; (v) funding for program administration. The Project is designed to influence sector policy outputs and outcomes (expressed in DLIs) by co-financing SA expenditures and by providing technical assistance necessary to manage and sustain reforms.

Performance-based disbursement is new to the World Bank's engagement in Ukraine but has been successfully tested in other WB projects. While preparing the Project, the team tried to ensure that" (i) all DLIs are realistically calibrated, concrete, understandable, and easy to measure and verify; (ii) treasury and reporting systems are adequate and operational; and (iii) TA is extended as needed to support achievement of DLIs. The Project will use the national treasury and financial control systems, and so will avoid creating additional complexities. Based on the lessons learnt from the past experience, the proposed Project sets some DLIs to leverage timely implementation of ICT activities. The Project team will closely monitor progress on activities/contracts for additional modules for MIS, performance management and social inspection.

Technical support before project start up: Under the ongoing ECAPDEV Grant, technical assistance is being provided to MoSP to (i) finalize business process development that links benefits and services for families; (ii) identify the scope of MIS extension (additional modules for performance management and additional functions); and (iii) finalize Technical Specifications and Bidding Documents for MIS further development. The technical assistance provided under the Grant will increase the implementation readiness of the SSNM Project, so that the procurement of contracts related to MIS further development could start immediately after the Board approval.

Procurement support: The procurement consultant that helped the MoSP to implement ECAPDEV grant and develop procurement manual for the Project is experienced in handling large amount works and consultant contracts; the person is familiar with the Bank's and other IFI's procurement rules and guidelines. With the expected increase in the work load, once the Project implementation starts, the MoSP will hire an additional procurement consultant. Small civil works related to rehabilitation of internats and family homes in four selected oblasts will be procured and supervised by USIF as the MoSP's technical arm.

The agreed mitigation measures to be carried out throughout the Project implementation are as follows:

(i) The procurement consultant will provide continuous assistance to MoSP in conducting procurement and facilitate communication with the Bank; and

(ii) The World Bank's procurement team will provide continuous support and guidance to the Procurement consultant and MoSP.

(ii) MoSP staff, USIF staff and consultants will be regularly invited to the training sessions on fiduciary requirements and specific procurement procedures to be delivered by the World Bank staff.

Safeguards: The overall responsibility for the implementation of civil works in compliance with the World Bank relevant procedures and principles regarding the environmental assessment, monitoring, etc., lies with USIF. USIF has both the capacity and experience to track environmental and social safeguards in projects involving civil works. USIF follows the Environmental Guidelines, including EMP, which are in compliance with the WB EA requirements.

The Environmental and Social Safeguards Specialists on the team will supervise EMP implementation by USIF and monitor potential environmental impacts related to small scale, mostly indoor construction works required for refurbishing and adaptation of interior space to accommodate new institutions for orphans and disabled children, etc.

The main focuses of implementation support during different phases of the Project are as follows:

Time	Focus	Skills Needed	Resource Estimate
0-12 months	• Procurement	• Sr. Procurement specialist • Procurement specialist	• 2 staff-week • 10 staff week
	• Monitoring and evaluation • Capacity building	• Task manager • Operations Analyst	• 10 staff-weeks • 12 staff-weeks
	• Contract management	• Task manager	• 11 staff-weeks
	• Technical support	• Senior Economist	• 2 staff weeks
12-36 months	• Capacity building	• Task manager • Social protection specialist	• 24 staff-weeks • 15 staff-weeks
	• Technical support	• Senior Economist • Task manager • Social protection specialist	• 6 staff-weeks • 20 staff-weeks • 6 staff-weeks
	• Procurement	• Procurement specialist	• 6 staff-weeks
	• IT procurement	• Senior procurement specialist	• 4 staff-weeks
	• EMPs monitoring	• Social and environmental safeguards specialists	• 2 staff weeks
36-72 months	• Contract management • Monitoring and evaluation	• Task manager • Social protection specialist	• 45 staff-weeks • 9 staff weeks
	• IT procurement • Procurement	• Sr. Procurement specialist • Procurement specialist	• 3 staff weeks • 5 staff weeks
	• EMPs monitoring	• Social and environmental safeguards specialists	• 3 staff-weeks
	• Technical support	• Senior Economist	• 9 staff-weeks

Skills Mix Required:

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Senior Social Protection Specialist (TTL)	110	0	Field based staff
Procurement specialist	7	0	Field based staff
Senior procurement specialist (IT contracts)	8	6	
Financial Specialist	2	0	Field based staff
Operations Analyst	12	0	Field based staff
Social Protection Specialist	24	0	Field based staff
Environmental safeguards specialist	5	3	
Senior Economist	17	6	

Annex 6. The Social Assistance (SA) System

1. Overall spending levels, trends, categories of programs

Ukraine operates a complex social assistance system that redistributes a large share of GDP. By 2012, spending on social assistance programs accounted for about 3.3 percent of GDP, placing Ukraine among the higher spending countries in the ECA region[23].

The country operates 16 major social assistance programs, the majority of which are categorical programs targeted at broad categorical groups, which reduces the efficiency of social assistance spending. These categorical programs include those targeted at families with children or foster families, persons with disabilities, elderly without contributory pensions, privileged citizens, or households with a high relative cost of their heating and utility bill. Only one program, the Guaranteed Minimum Income, or GMI program, is targeted to low-income households based on a means-test. The key parameters of these programs are reviewed in Annex Tables 1.1-1.3.

The spending mix is dominated by family support programs, which represent 62 percent of social assistance spending in 2012 (Figures 1 and 2 and Table 1). Among the program groups, the largest non-contributory cash transfer programs in terms of spending were child allowances, which represented 1.9 percent of GDP, or 62 percent of social assistance spending in 2012. The next group of programs by spending include disability allowances (0.52 percent of GDP in 2012, respectively 17 percent of the social assistance spending), followed by privileges for the use of transport, housing/ utilities and fuel resulting in discounts off the normal price of service granted to certain categories of population (0.34 percent of GDP in 2012, respectively 0.11 percent of the SA spending). The remaining 10 percent of social assistance spending goes in equal shares to two small programs, i.e. benefits to low-income families (GMI program) and housing and fuel subsidies (each accounting for 0.15 percent of service granted to certain categories of the i.e. benefits GDP in 2012).

During the last nine years, both the relative level of social assistance spending and its composition in terms of programs changed substantially:

- *Over time, a larger share of GDP was spent on social assistance programs*. Overall social assistance spending increased from 1.4 percent of GDP in 2005 to about 3.3 percent in 2012. Except for 2011, the increase in spending occurred year after year.
- *The share of social assistance spending on child benefits has grown continuously, eroding privileges and the GMI program.* Spending on child benefits increased from 27 percent of the overall social assistance spending in 2005 to 62 percent in 2012, while the share spent on privileges and the GMI decreased from 37 percent and 20 percent to 11 percent and 5 percent, over the same period.

These changes were triggered by the increase in the generosity of one child benefit program, the birth grants. In an attempt to encourage births, the size of the birth grant was increased from UAH 450 to UAH 3,125 during 2004–2005. By 2011, the birth grant had increased to an average of UAH 24,000; in 2012 it grew by another 10 percent. Compared to 2005, its nominal value has increased 10-fold. The grant value is linked to the subsistence minimum (UAH893, or US$111, in January 2012) and for children born after December 31, 2011 it matches 30SMs on the first child, 60 SMs on the second and 120 SMs on every child to follow. Hence, payments due from the budget on the first, second and each following child would be an equivalent to about US$3,350, US$6,700 and US$13,400, respectively. This

[23] The average social assistance spending in ECA region around 2011 was 2 percent of GDP. Source: Social Protection Database – Spending on Social Protection Programs, Oct 2013 version.

large increase in generosity has not succeeded to increase the fertility rate; it only brought program take up to almost 100 percent[24].

2. Key Parameters of SA programs

The size of the key social assistance programs is 2012 is presented in Table 1: the spending on each program and group of programs, and relative to GDP or total social assistance spending; the annual number of beneficiaries or assistance units served during 2012; and whether the programs are income-tested or not. Annex Tables 1.1-1.5 present the key parameters of the main social assistance programs operating in 2013: main eligibility criteria benefit formula and other adjustments to the benefit formula, if applicable.

The largest group of social assistance programs is the child benefits .Ukraine operates seven such programs, of which three are more important both financially and by the number of beneficiaries (see Figures 1 and 2):

- The largest program in terms of the number of beneficiaries is the child care benefit for children under 3 years old, which covered about 1.5 million beneficiaries in 2012. Parents could apply for a minimum flat benefit of UAH 130 per month per child, or pass a means-test and get a larger benefit. Most beneficiaries receive the minimum flat benefit.
- The largest program by spending is the child birth grant, accounting for two-thirds of the total spending on child benefits. By 2012, it covered 538 thousand beneficiaries.
- The third largest program is the social benefits to single parents (250 thousand recipients in 2012).

The second largest group of social assistance programs serves persons with disabilities. Ukraine offers three types of cash transfers: for disabled children (about 382 thousand beneficiaries in 2012); for care givers of disabled children (177 thousand); and for care givers of mentally disabled persons (21 thousand). The first program represents about 80 percent of the overall spending on disability program. The first two programs operate on categorical principles, and the level of their benefit (B) depends of the severity of the disability (groups I, II or III) and the government-determined subsistence minimum (SM).The social benefit for taking care of mentally disabled is income tested; only families with a per capita income below three SM can apply for it.

Figure 1Spending on social assistance programs, % of GDP

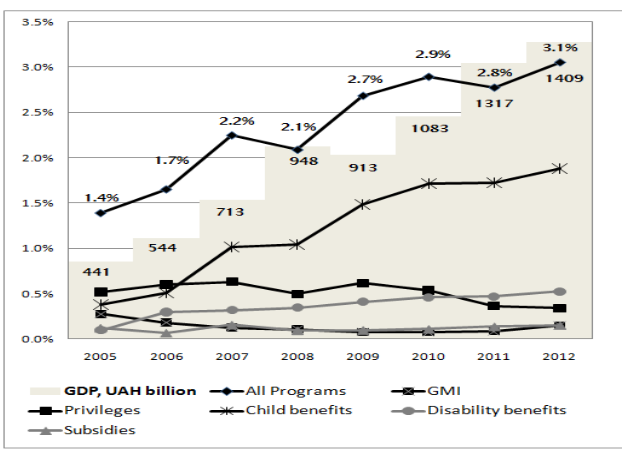
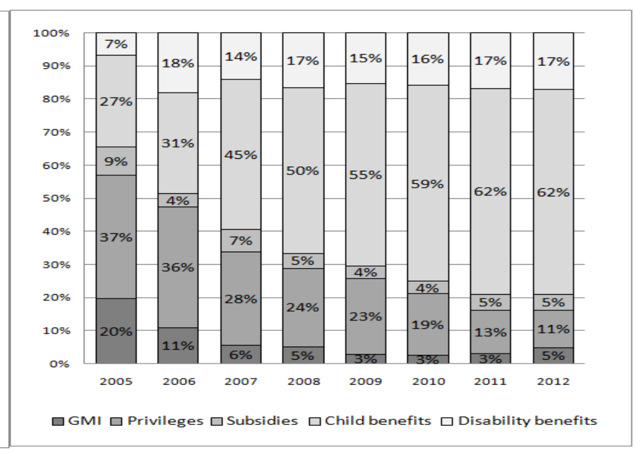


Figure 2 Changes in social assistance program mix, 2005-2012



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24 In 2004-2005, when the value of the grant was relatively low, only about a third of the eligible families were applying. By 2007, almost all families with newborns started applying for the grant. Within the first two years, the number of recipients tripled: from about 160,000 during 2005–2006 to about 500,000 during 2007.After 2007, the number of beneficiaries (and of the new births) has leveled at around 500.000 per year.

Table 1. Size of the social assistance system in Ukraine, 2012

	Spending			Beneficiaries		Assitance	Income
	'000s UAH	% of SA	% of GDP	Number/Yr	% of Population	Unit	tested?
Child benefits	26,552,763	56.6	1.88				
Child care benefit for children under three years	6,570,089	14.0	0.47	1,515,600	3.3	IND	Mixed
Child birth grant	14,949,056	31.8	1.06	538,200	1.2	IND	No
Maternity benefit	355,506	0.8	0.03	285,400	0.6	IND	No
Social benefit to single parents	2,916,951	6.2	0.21	248,500	0.5	IND	Mixed
Social benefits for children under guardianship	1,310,727	2.8	0.09	96,300	0.2	IND	No
Temporary social benefits for children deprived of alimony support	410,800	0.9	0.03	71,340	0.2	IND	No
Foster family benefits (for orphans and abandoned children)	39,633	0.1	0.00	1,800	0.0	IND	No
Disability programs	5,929,078	12.6	0.42				
Social benefits for disabled children and disabled since childhood	4,607,142	9.8	0.33	381,619	0.8	IND	No
Carer supplement (disabled children)	1,085,737	2.3	0.08	177,453	0.4	IND	No
Social benefit to low income individual for taking care of mentally disabled	236,200	0.5	0.02	21,296	0.0	IND	Yes
Social pensions	48,837	0.1	0.00				
Social benefits for those who do not have pension and disabled	48,639	0.1	0.00	54,368	0.1	IND	Yes
Social care allowance	198	0.0	0.00	999	0.0	IND	Yes
Reduction of the cost of housing and utility services	2,147,800	4.6	0.15				
Housing and utilities subsidy	1,905,700	4.1	0.14	1,845,300	8.1	HH	Yes
Subsidy for purchase of liquiefied gas, solid or furnace fuel	242,100	0.5	0.02	295,800	1.9	HH	Yes
Last-resort income support program	2,101,866.1	4.5	0.15				
Social assistance to low income families (GMI)	2,101,866	4.5	0.15	305,945	2.0	FA	Yes
Privileges	10,170,360	21.7	0.72				
Privileges for housing and utilities	7,388,300	15.7	0.52	6,466,348	14.2	IND	No
Privileges for purchase of liquiefied gas, solid or furnace fuel	742,420	1.6	0.05	716,328	1.6	IND	No
Privileges for transport	2,039,640	4.3	0.14	11,842,678	26.0	IND	No
Total	**46,950,703**	**100.0**	**3.33**				
Pro memoria							
GDP, nominal, '000,000 UAH	1,408,889						
Population				45633000			

To protect the small segment of elderly who do not have contributory pensions against poverty, Ukraine operates two programs: social benefits for those who do not have a pension and are disabled; and the social care allowance (Annex Table 1.3).In 2012, these two programs covered a few thousand beneficiaries and accounted for 0.1 percent of the total social assistance spending. Both programs are income tested (Table 1).

To protect households against the higher relative cost of housing and utility services (especially heating costs during the cold season), Ukraine operates a three-tier system:(a) below-cost pricing of gas or district heating for the household sector (a policy that covered the whole population); (b) a reduction of the cost of such items for privileged citizens (covering about 25 percent of the population); and (c) a limit of the relative share of Housing and Utility Subsidies (HUS) or gas expenditures relative to household income of 15 percent (or 10 percent in the case of non-able bodied with children and disabled).

Households whose relative cost of HUS expenditures exceed 15 percent (or 10 percent if they include disabled family members or have children) of the household income are eligible for the HUS subsidy program (if they use district heating) or the gas subsidy program. In 2012, the HUS subsidy program covered about 8 percent of the population, and the gas subsidy another 2 percent.

Households with incomes below a Guaranteed Subsistence Minimum (GSM) are eligible for social assistance to low-income families, or the Guaranteed Minimum Income (GMI) program (Annex Table 1.5). In 2012, this program offered protection against indigent poverty for the poorest 1-2 percent of the population, and spent about 5 percent of the total social assistance budget.

3. Distributional performance of social assistance programs

Despite high overall coverage, about a quarter of the households from the poorest decile are not covered by the **social assistance system in 2011 (Figure 3)**. In 2011, Ukraine's social assistance system covered about 61 percent of the population, and about three quarters of the households from the poorest decile (or per adult equivalent income).Despite its high spending and overall high coverage, the system does not reach about a quarter of the households in the poorest decile, because of the limited coverage of the GMI program (less than 2 percent of the population in 2012) and the prevalence of categorical programs.

Figure 3 Coverage of ALL Social Assistance

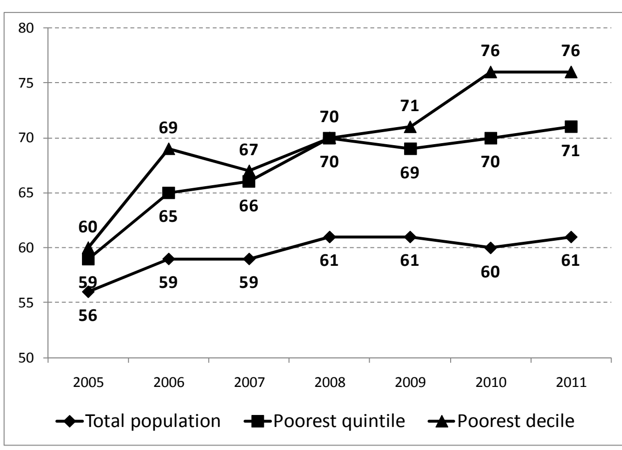
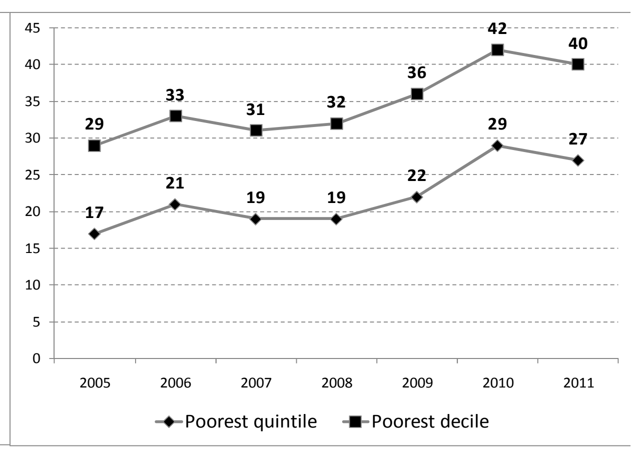


Figure 4 Targeting Accuracy of ALL Social Assistance



Source: Staff estimations based on HBS 2007–2011 and ADePT SP software.
Quintiles based on per adult equivalent income.

Within the group of transition economies, Ukraine does not rank high in terms of targeting accuracy of its social assistance spending, due to a preference for categorical programs (Figure 4 and Table 3). Since 2005, there has been a major shift in the program mix, away from income-tested programs toward categorical ones. The share of income-tested programs in the total social assistance spending has fallen continuously, from more than a third of the total in 2005 to only about a fifth in 2009 (see Figure 2). The Ukrainian GMI benefits alone shrank from almost a fifth in 2005 to only 0.7 percent in 2011.[25] The number of GMI program beneficiaries also decreased dramatically from over a million families in 2005 to only about 240,000 in 2011. As most of the social assistance budget is funneled to the categorical programs, only 40.2 percent of Ukraine's social safety nets would reach the poorest quintile in 2011 (see Table 2).[26] Expansion of these categorical programs was made possible and facilitated by the strong economic growth. Similar to some other countries in the region (Bulgaria, Croatia or Romania), the contraction of the income-tested program to support families with lower incomes in Ukraine was due to political economy factors (preference for programs that transfer money to a broad income spectrum), and not to the inability of the government to identify the poor.

Table 2. Share of Social Assistance Benefits Reaching the Poorest Quintile

	2005	2006	2007	2008	2009	2010	2011	2012
All social assistance	28.8	33.3	31.3	32.4	35.9	42.0	40.2	43.2
Poor-family allowance	74.3	80.7	73.4	84.9	79.8	73.0	72.5	72.6
Scholarships	26.0	27.7	26.5	29.4	34.3	34.3	33.8	27.0
Children allowance	43.6	44.5	44.5	46.9	49.5	58.6	53.6	59.4
Other allowances	14.8	20.9	22.8	20.1	18.9	23.1	23.3	28.7
Subsidies for liquefied gas, solid or liquid fuel	10.5	25.0	16.4	28.8	18.0	18.0	31.6	18.4
Privileges for liquefied gas, solid or liquid fuel	5.3	11.1	13.4	17.4	15.4	22.7	15.4	19.7
Housing and utilities subsidies	29.0	41.1	31.4	42.3	41.2	24.4	29.8	26.9
Housing and utilities privileges	7.6	10.7	12.0	12.3	10.4	10.3	13.3	13.6
Electricity privileges	8.6	11.5	14.6	14.9	12.5	11.6	14.5	16.6
Telephone privileges	7.2	7.9	10.8	9.9	8.0	9.3	10.5	11.7
Transportation privileges	8.0	9.7	12.0	10.7	8.6	8.8	10.0	8.7

Source: Staff estimations based on HBS 2007–2012 and ADePT SP software.
Quintiles based on per adult equivalent income.

Ukraine operates a number of means-tested programs which are good at identifying the poor. These include the GMI program for low-income families and the income-tested childcare allowances for children aged 0–3 and for children brought up by a single parent. The GMI program channels about three quarters of the benefits to the poorest 20 percent of the population (Table 2); about 60 percent of the program benefits reach the poorest 10 percent of the population (Figure 6). Over time, the targeting performance of the program has been consistently very good, both by regional and OECD standards.

[25] In 2010, the largest are child allowances accounting for 60 percent of all programs, followed by privileges (18.5 percent), disability-related benefits (16 percent), and housing and fuel subsidies (3.8 percent).

[26] Staff estimations based on HBS 2007-2011 and the ADePT SP software. Households are ranked by quintiles of pre-transfer consumption per adult equivalent. Similar results are obtained if per capita income is used to rank households (an implicit well-being indicator to determine eligibility for means-tested programs).

Figure 5. GMI average monthly coverage, 2005-2013

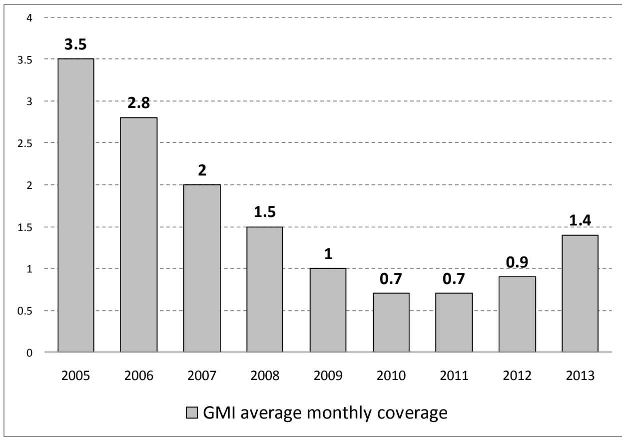
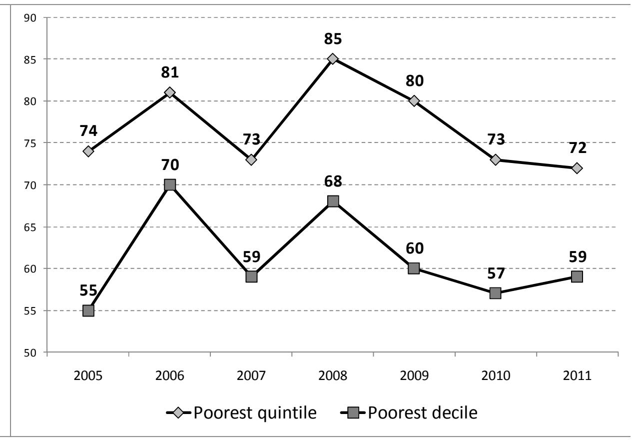


Figure 6. Targeting Accuracy of GMI, 2005-2011



Source: Staff estimations based on HBS 2007–2011 and ADePT SP software.
Quintiles based on per adult equivalent income.

The program of social assistance for low-income families has been designed specifically to target the poor. However, the program's coverage of the total population is low. This is, in part, the result of the MoSP's efforts to tighten the process for determining eligibility. The program uses a guaranteed percentage of subsistence (not its full size) to augment the applicant's household income per capita. The percentage would be increased over time, but the rate of increase has shown to be inadequate *vis-à-vis* inflation. Households' nominal incomes have much outpaced increases in the subsistence-based incomes as guaranteed by the state. As a result, an ever-smaller stratum has qualified for this benefit, limiting the program's recipients to only the extremely poor. Specifically, it now reaches 1.4 percent of the poorest quintile (2013), down from about 3.5 percent during 2005. This low coverage, combined with the erosion in the value of benefits over time, has meant that the program's impact on reducing poverty is low.

Social assistance spending has a limited impact on poverty reduction. As of 2011, the share of the population with per adult equivalent income of the Minimum Subsistence Level (MSL) was around 8 percent. In the absence of social assistance spending, the poverty rate would have gone up to 12 percent. While this reduction is important, it is relatively modest compared to the volume of resources that are channeled by the social assistance system. With 3.3 percent of GDP spent on social assistance, Ukraine could eradicate poverty if these resources were better targeted to the poor. The prevalence of categorically targeted programs and the low coverage of the GMI program are the two key factors that reduce the poverty impact of the social assistance spending in Ukraine.

Figure 7 Poverty Rate - based on Income per Adult Equivalent

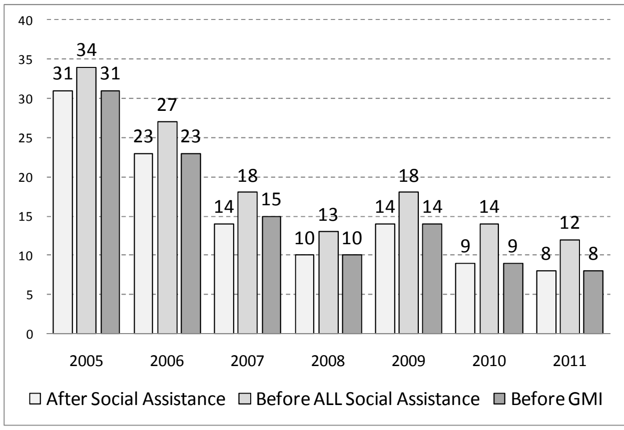
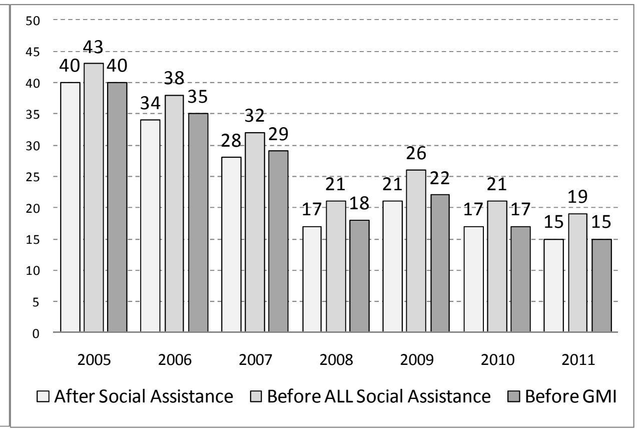
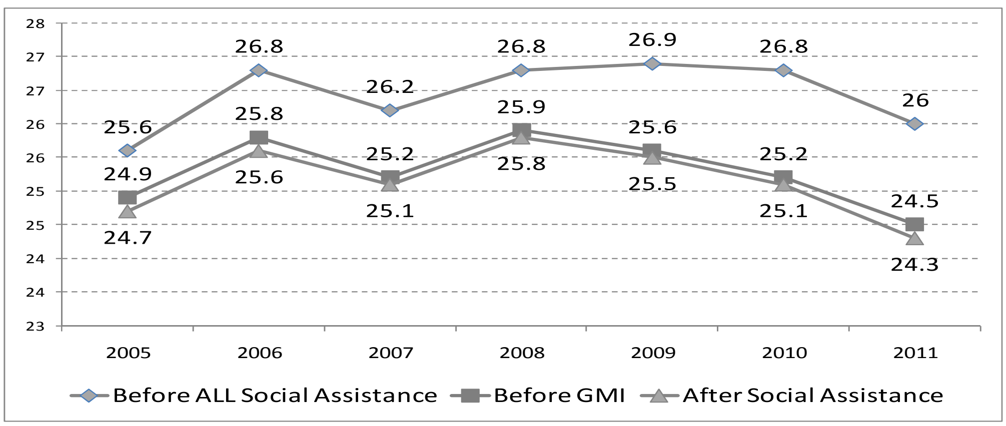


Figure 8 Poverty Rate - Based on Expenditure per Adult Equivalent



Source: Staff estimations based on HBS 2007–2011 and ADePT SP software.
Quintiles based on per adult equivalent income.

Figure 9. The simulated impact of social assistance spending and GMI on reducing inequality



Source: Staff estimations based on HBS 2007–2011 and ADePT SP software.
Quintiles based on per adult equivalent income.

4. The expansion of the GMI program

Aware of these drawbacks, the GoU has chosen to expand the coverage of the GMI program as one of its priorities, and gradually improve its design to further improve targeting, simplify its administration and help non-working work-able beneficiaries transition from assistance to employment. Over 2014-2019, the number of beneficiary families is expected to increase to 300,000 (1.1 million persons), expanding the program's coverage to about 2.5 percent of the population. To counteract a possible deterioration of the GMI targeting accuracy, the GoU intends to revise its eligibility procedures by 2016 with the objective of boosting targeting accuracy while simplifying the eligibility criteria and procedures in order to reduce the administrative and client costs. By 2018, the GoU intends to put in place activation services and incentives, with the objective of supporting the transition of work-able beneficiaries from benefits to employment. This section describes the simulation model used to estimate the likely costs, distributional incidence and impact on poverty and inequality of the expansion, as well as the rationale for the improvements in eligibility criteria and introduction of activation measures.

To estimate the cost, targeting accuracy and impact on poverty and inequality of the GMI expansion, we use a partial-equilibrium simulation model where individual eligibility thresholds are increased by a constant factor, to attract a larger pool of applicants into the program. The model does not take into account the planned improvements in eligibility criteria or the results of the large-scale inspections, both measures which are likely to improve the targeting accuracy of the program in the outer years. The estimates presented in this section represent thus a low case scenario.

The GMI eligibility criteria are quite complex. The program is a last-resort anti-poverty program that guarantees a minimum income floor (guaranteed subsistence level, GSL) under which no family in Ukraine can fall, as a percentage of the minimum subsistence level (MSL).

- The MSL represents the cost of a normative basket of goods and services deemed necessary for the subsistence. It is differentiated between children 0-6 years old; children 6-18 years old; adults; and elderly; and is adjusted with the cost of living and other normative considerations a number of times each year (Table A1).
- The GSL is determined as a fraction of the MSL. Under the current (Sept 2013) rules, the GSL equals 100% of the MSL for elderly, 75% for children and only 21% for adults (
- **Table A 2**).
- The GMI benefit is calculated as the difference between the GSL and the monthly family income. The family income is computed as an average of the total family income obtained during the last six months previous to the GMI application.
- The GMI benefit is augmented in special cases. The GSM for each child is increased by 10%; or by 20% in case the child is raised by a single parent, a disabled parent, or if the family lives in a mountainous area. Since 2012 families with children also benefit from a supplement of UAH 250 per child per month for children 3-13 years old; or UAG 500 for children 13-18 years old.

Table A 1 Individual Minimum Subsistence Level (MSL), UAH/person/month

	2013		2012					2011			
	1-Dec	1-Jan	1-Dec	1-Oct	1-Jul	1-Apr	1-Jan	1-Dec	1-Oct	1-Apr	1-Jan
Children under six	1,032	972	961	930	917	911	893	870	853	832	816
Children of 6-18 y.o.	1,286	1,210	1,197	1,161	1,144	1,134	1,112	1,042	1,022	997	977
Able-bodied*	1,218	1,147	1,134	1,118	1,102	1,094	1,073	1,004	985	960	941
Non-able-bodied**	949	894	884	856	844	838	822	800	784	764	750

** Under retirement age*
*** Of retirement age, of age legitimate for privileged pensions, not working with disabled status*

Table A 2 Guaranteed Subsistence Level (GSL), as percentage of the MSL

	2013	7/1/2012	1/1/2012	2011
Children under six	75%	75%	50%	50%
Children of 6-18 y.o.	75%	75%	50%	50%
Able-bodied*	21%	21%	21%	21%
Non-able-bodied**	100%	100%	80%	75%

** Under retirement age.*
*** Of retirement age, of age legitimate for privileged pensions, not working with disabled status.*

The simulation of the GMI expansion uses the 2012 Household Budget[27], augmented with a macroeconomic projection about GDP and population growth. The macroeconomic assumption reflects the latest economic model of the World Bank; and the demographic projection is compatible with the UN medium demographic forecast for Ukraine.

To estimate the GMI expansion and its outcomes, we use a simple partial equilibrium micro model with the following assumptions:

- Household incomes will growth at the same pace as the GDP growth over 2014-2019;
- Households only report their easy-to-verify, formal incomes when they apply for social assistance (consistent with regional evidence, see Tesliuc et al, 2014). To determine eligible households, we use only easy-to-verify incomes from formal employment, social protection transfers, incomes from independent activities and dividends, and presumed income from farming. Informal incomes from remittances or from informal non-agricultural businesses (harder to verify by social workers) are not taken into account.
- Only some of the eligible households would apply to the program, i.e. those for which the generosity of GMI (ratio of the GMI benefit in total consumption) is high enough to entice them apply. As the relative costs and the relevance of the benefit vary for people with different incomes, the minimum generosity was assumed to be different for households situated in different quintiles. The value of the minimum generosity that entices households to apply was selected such as the estimated number of GMI beneficiaries from HBS was equal with the number of beneficiary households from administrative data.
- To entice more households to apply for the program, the GoU could only increase the MSL. We held constant the GSL coefficients from 2013, and we keep the child supplement to UAH 250 during the whole projection period. Implicitly, we assume that the GoU cannot increase caseload by expanding its outreach efforts; given that all Ukraine population is literate and has access to media channels to learn about the GMI program, this assumption is plausible. A recent survey has confirmed that most GMI beneficiaries report being aware of the program rules.
- To estimate the progress in reducing poverty and inequality, or targeting of the GMI funds, we use household income per adult equivalent net of all social assistance receipts as the welfare indicator. The same indicator was used to create the income groups (deciles or quintiles) used to track the distributional outcomes of the expanded GMI.

The key results of the simulation are presented in Table 3 in Annex 2.

The GMI expansion will require a significantly increased budget. While in 2013 the total GMI budget was UAH 3,963 million (preliminary figures), by 2019 is expected to grow to approximately UAH 13,173 million (nominal prices). In real terms, the 2019 budget will be 2.3 times higher than in 2013. As a percentage of GDP the budget for GMI would increase from 0.28 percent to about 0.57 percent; However, the increase in social assistance outlays will happen incrementally, and could be off-set in part in the medium term if the Government were to pursue reforms such as capping or eliminating privileges (as set out in the Presidential Reform Program), containing the costs of ineffective birth grants and reducing error and fraud in the social assistance system. These potential savings would compensate about a third of the proposed increase in the GMI budget.

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[27] Since 1999, Ukraine has conducted an HBS in each year. This survey is the main source of data on living standards, on the level and composition of household income and expenditure, on the consumption of food, other goods and services, on the demographic and socio-economic composition of households, on household durables and housing conditions. The survey universe is the entire population except those in armed forces, those imprisoned, persons residing in boarding houses for the aged, homeless and foreigners temporarily living in Ukraine. Important for this simulation, the HBS includes specific questions about receipt of the GMI program and household income.

The expansion of the GMI program will require additional fiscal space, but there is scope for off-setting these costs within the social assistance system. In 2013, the GMI cost 0.28 percent of GDP; by 2019, it is projected to increase to 0.57 percent of GDP.[28] However, this expansion would be gradual, averaging about 0.05 percent of GDP per year. The GoU could manage the gradual increase in GMI budget through a combination of the following measures: (i) cap the indexation of categorical benefits to inflation. By 2019, this measure could reduce non-GMI social assistance spending by 0.53 percentage points; (ii) eliminate or cap privileges[29] generating savings of around 0.1 percent of GDP per year; and (iii) reduce error and fraud in the social assistance system, which would require building the capacity of the Social Inspectorate and deploying it across the largest risk-prone benefits. Starting with the third year of the project, the GoU could expect fiscal savings ranging from 0.1 percent to 0.2 percent of GDP per year. The Project would provide assistance to elaborate and evaluate options for these policy reforms, finance public communication campaigns to mitigate the political opposition to such reforms and provide needed investments in the newly created Social Inspectorate to make it effective and efficient.

The enhanced GMI benefit would have a much larger impact on beneficiaries' welfare:

- *First, it will reach a larger number of beneficiaries, especially the extreme poor.* Over 2014-2019, the number of beneficiary families is expected to increase to 300,000 (1,140,000 individuals), equivalent to coverage of 2.5 percent of the population. This expansion will improve coverage among beneficiaries from the poorest quintile, from five percent on average per month in 2012 to a projected 10 percent in 2019.
- *Second, the average benefit per household is expected to increase in real terms* by approximately 23 percent **-** from UAH 2,081 per month in 2013 to UAH 2,555 in 2019 ((in nominal terms the increase would be about 75 percent). The increase of the per capita benefit is expected to be 37 percent larger (because of a slight decrease in the average household size of the beneficiaries).

The projected GMI expansion will accelerate poverty reduction. 2019, the poverty rate would drop from 12.9 percent (counterfactual without GMI *expansion* and inequality-neutral economic growth) to 12.1 percent. The simulated impact of the GMI expansion is about 0.8 percentage points reduction in the absolute poverty rate. The GMI expansion is projected to lift an additional 365,500 people out of absolute poverty. The GMI expansion will narrow the poverty gap, including the income gap for those still in absolute poverty. In 2019 the difference between the poverty gap without and with the enhanced GMI program would be from 0.025 to 0.021.

These are lower-bound estimates of the simulated impact on poverty reduction. They do not include the positive impact of the improvement of the targeting accuracy nor the improved oversight and control through social inspections.

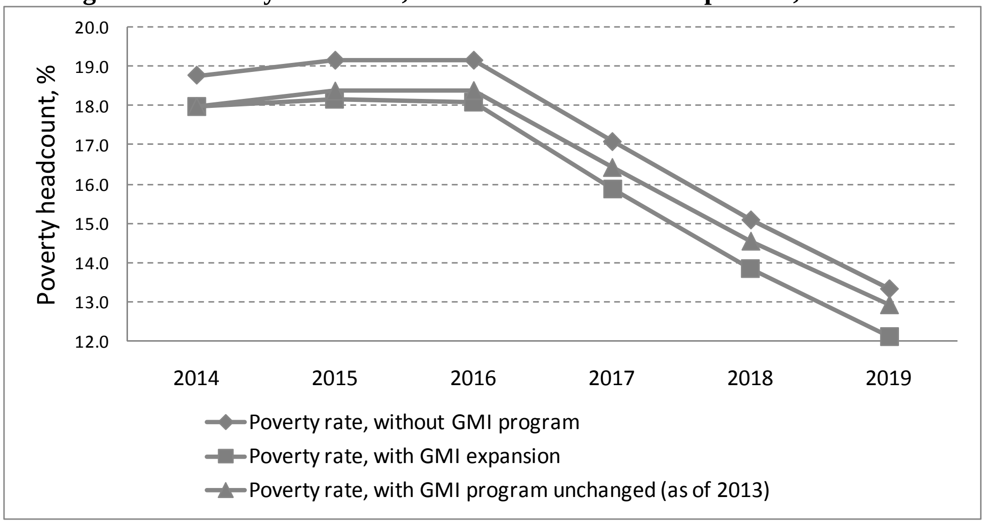
To counteract a possible deterioration of the GMI targeting accuracy through expansion, the Government of Ukraine (GoU) intends to revise its eligibility procedures by 2016 to boost targeting accuracy while simplifying the eligibility criteria and procedures in order to reduce the administrative and client costs. The revision will rely on a simulation model of eligibility determination (e.g. using HBS 2013), where predicted targeting accuracy using alternative eligibility criteria will be compared with the predicted targeting accuracy of existing criteria. The changes in eligibility criteria to be simulated will

[28] In 2012, the GoU introduced flat supplements for children of households that benefited from the GMI program (UAH 250 for 3-6 year olds and 500 for 6-18 year olds). This flat child supplement accounts for about 32 percent of the overall GMI budget and makes the overall cost of the program higher. This also explains the higher cost of GMI expansion than one would expect without child supplements.

[29] 'Privileges' are benefits that come in the form of reduction of the cost utilities, telephone bills, and transportation costs.

include the definition of the assistance unit, the administrative definition of income and assets used in the means-test, rules for taking into account informal incomes, income and asset disregards, recertification period and rules, and co-responsibilities.

Figure 10. Poverty headcount, with and without GMI expansion, 2014-2019



Source: WB estimations
Note: Poverty headcount increases during 2015, due to negative economic growth

The GoU is expected to adopt new eligibility criteria that would results in at least a 10 percent increase in the predicted (simulated) targeting accuracy, i.e. the share of GMI benefits predicted to accrue the beneficiaries from the poorest quintile. This minimum increase was chosen to compensate the expected (simulated) reduction of this indicator when the program coverage increases from 1.4 to 3 percent of the population. The 10 percent increase in targeting accuracy of the GMI program is both a feasible and an ambitious target. As of 2012, the share of benefits reaching the poorest quintile, i.e. targeting accuracy, was 72.5 percent. Over 2005-2012, the maximum targeting accuracy was between 80-85 percent (in 2006, 2008 and 2009), see Table 2. A 10 percent increase in targeting accuracy should bring the current targeting accuracy from 72.5 percent to its historical maximum of around 80 percent. These figures are, however, ex-post survey estimates. The eligibility determination model will only use predicted eligibility, using both current and revised rules, and will use the same minimum threshold of 10 percent for improvement in targeting accuracy.

By 2018, the GoU intends to implement activation services and incentives nationwide, to support the transition of work-able beneficiaries from benefits to employment. Concerns that the GMI program discourages work are high in Ukraine. Three features of the GMI program justified such concerns: (i) the program's benefit is higher, relative to the beneficiary' income, than elsewhere in ECA[30] or other regions; (ii) the formula of the benefit (the minimum income guarantee) imposes a 100 percent implicit tax on earnings; and (iii) about half of the adult GMI recipients are not in employment, education, training, disabled or receiving pensions (NEETDP). Compared to other similar programs in ECA region, the Ukrainian GMI has relatively few measures to discourage benefit dependency. The only measure is

[30] The GMI benefits account for 56 percent of the poorest quintile beneficiaries' income in 2012. Tesliuc et al (2014) report that, among 18 other ECA countries, this generosity indicator had an average of 30 percent, with only one country and program (the Lithuanian Social benefit) having a generosity of around 60 percent. Most CCT programs have a generosity of about 20 percent. The generosity of the Ukrainian GMI program increased in 2012, with the introduction of a child supplement (in effect, making the GMI beneficiaries the recipients of two benefits, the GMI proper and a flat child benefit).

the condition to be registered with the unemployment office, and the absence of this condition rarely leads to being suspended from the program, nor is it complemented with ALMPs that could help the beneficiary to transition from assistance to employment. To mitigate the likely work disincentives, the GoU intends to develop and adopt a package of co-responsibilities for NEETDP adults by 2016, pilot it in two oblasts during 2017, and then roll them nationwide during 2019.

Table A 3. Key Parameters of Social Assistance Programs (2013)

Program	Eligibility	Basic Formula	Other Adjustments
Family, child care, orphans and abandoned children			
Child care benefit for children under three years	Categorical: taking care of children of 0-3	B = UAH 130 as min flat	Granted without income test
	Y per capita < SM (able-bodied)	B = SM - Y per capita	
Child birth grant	Categorical: newborn	B = 30 x SM on 1st child B = 60 x SM on 2nd child B = 120 x SM on 3rd and next child	Paid as one-time in amount of 10 x SM then distributed evenly over 24, 48 and 72 months respectively; *SM used is for children under six*
Maternity benefit	Categorical: uninsured, students, unemployed women	B = 25% x SM (able-bodied) for uninsured, not registered unemployed B = 126 (180) days x average daily income (unemployment benefit, scholarship, etc.)	Paid maternity leave is 126 days (general case), 180 days (Chornobyl status), 56 days (not monitored at a health institution before giving birth)
Social benefit to single parents	Categorical: single parent	B = 30% x SM (children/age) as min flat	Granted without income test
	Y per capita < 50% x SM (children/age)	B = 50% x SM (children/age) - Y per capita	
Temporary social benefits for children deprived of alimony support	Categorical: children not receiving alimony	B = 30% x SM (children/age) as min flat	Granted without income test; if size of alimony ruled by court < 30% x SM (children/age), difference reimbursed
Social benefits for children under guardianship	Categorical: children under guardianship	B = 2 x SM (children/age)	
Foster family benefits	Categorical: children raised in foster family or family-type children home	B = 2 x SM (children/age)	Parent support paid as 35% x (2 x SM) on each child

Program	Eligibility	Basic Formula	Other Adjustments
Disability			
Social benefits for disabled children and disabled since childhood	Categorical: disabled since childhood	B = 100% x SM (non-able-bodied) for Group I B = 80% x SM (non-able-bodied) for Group II B = 60% x SM (non-able-bodied) for Group III	
	Categorical: disabled children under 18	B = 70% x SM (non-able-bodied)	
Carer supplement	Categorical: carer of disabled since childhood	B = 75% x SM (non-able-bodied) for Group I, Sub-group A B = 50% x SM (non-able-bodied) for Group I, Sub-group B and unspecified B = 15% x SM (non-able-bodied) for Group II and III	For Disabled Group II and III requiring permanent care as certified
	Categorical: not working carer of disabled children	B = 50% x SM (children/age)	Granted to one of the parents (guardians, etc.) without income test
Social benefit for taking care of mentally disabled	Mixed: not working carer of Disabled Group I or II due to mental illness AND Y per capita < 3 x SM	B = 3 x SM - Y per capita B ≤ min wage	
Program	**Eligibility**	**Basic Formula**	**Other Adjustments**
Social pensions			
Social benefits for those who do not have pension and disabled	Y pc < SM (non-able-bodied) Y pc < 115% x SM (non-able-bodied) for Disabled Group I	B = 30% x SM B = 100% x SM for Group I B = 80% x SM for Group II B = 60% x SM for Group III B = 50% x SM for clergy	
Social care allowance	Mixed: single elderly with pension requiring permanent care AND Y pc < SM (non-able bodied)	B = 30% x SM for Disabled Group I, Sub-group A B = 15% x SM for all other	
	Categorical: War and military disabled receiving disability and other pension	B = 100% x SM for Group I, Sub-group A B = 50% x SM for Group I, Sub-group B B = 30% x SM for Group I, not war veterans B = 25% x SM for Group II B = 15% x SM for other	Paid through the Pension Fund offices

Program	Eligibility	Basic Formula	Other Adjustments
Housing and utilities			
Housing and utilities subsidy	HUS > 15% (10%) x Y	B = HUS - 15% (or 10%) x Y	A cap of 10% of income for HHs of non-able bodied, with children, Disabled Group I and II; the amount of utility bill adjusted to specific consumption norms; B is a discount for consumer, reimbursed directly to utility company
Subsidy for purchase of liquefied gas, solid or furnace fuel	Cost of purchase > 15% (10%) x Y	B = Cost of purchase - 15% (or 10%) x Y	A cap of 10% of income for HHs of non-able bodied, with children, Disabled Group I and II; the amount of utility bill adjusted to specific consumption norms; B paid to consumer directly
Program	**Eligibility**	**Basic Formula**	**Other Adjustments**
Last-resort/GMI			
Social assistance to low income families (GMI)	Y < GSM	B = GSM - Y B ≤ 75% x SM	Individual SMs established for children of 0-6 and 6-18, able-bodied and non-able-bodied adults; GSM for children = 75% x SM; GSM for non-able-bodied = 100% x SM; GSM for able-bodied = 21% x SM
			B increased by 10% x SM on each child and by 20% x SM if raised by single parent or disabled parent (Group I and II) and if with a mountain area inhabitant status
			Supplements: on children of 3-13 = UAH 180; on children of 13-18 = UAH 360

Note: Y is average monthly aggregate income of family (household). B is the benefit level. SM is the Subsistence Minimum