Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 21-Apr-2020 | Report No: PIDA28762
# BASIC INFORMATION

## A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Ukraine</td>
<td>P172348</td>
<td>Eastern Ukraine: Reconnect, Recover, Revitalize (3R Project)</td>
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<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<td>EUROPE AND CENTRAL ASIA</td>
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<td>30-Jul-2020</td>
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<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Investment Project Financing</td>
<td>Ministry of Finance</td>
<td>Ukravtodor, Ministry for Reintegration of Temporarily Occupied Territories</td>
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**Proposed Development Objective(s)**

To strengthen transport connectivity, support agricultural sector recovery, and engage conflict-affected communities in the design and monitoring of investments in project areas.

**Components**

- **RECONNECT**: Roads Investments to Link Rural Communities to Processing, Markets, Services
- **RECOVER**: Agricultural Investments to Support Sector Recovery and Modernization
- **REVITALIZE**: Implementation Support Platform
- **CERC**: Contingent Emergency Response Component

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

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<th>Item</th>
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<tr>
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<tr>
<td>Total Financing</td>
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<td>of which IBRD/IDA</td>
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<tr>
<td>Financing Gap</td>
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### DETAILS

World Bank Group Financing
**B. Introduction and Context**

**Country Context**

1. **Ukraine’s economic growth has been uneven since the country’s independence in 1991 and has been impacted by both external factors, such as the global financial crisis of 2008, and the internal conflict that began in 2014.** During the 2000-2007 period, Ukraine sustained high annual growth rates of 7 percent on average. Capital inflows surged, and credit growth boomed, fueled by the external borrowing of commercial banks. This enabled an expansionary fiscal policy that resulted in the accumulation of a structural deficit. Growth was almost entirely driven by favorable external conditions, but was not supported by structural reforms. With the onset of the global financial crisis, the Ukrainian economy contracted rapidly. During 2008-2013, growth was negative and averaged -0.7 percent annually. The Maidan Revolution of 2013/2014, the events in Crimea in March 2014, and the armed conflict in the east of the country since 2014 resulted in a continued severe recession, and the economy contracted by 16 percent during 2014-2015. The Government of Ukraine (GoU) subsequently undertook a series of fiscal and business environment-related reforms that helped stabilize the economy. Economic growth has resumed, albeit at a modest rate: gross domestic product (GDP) grew by 2.3 percent in 2016, 2.5 percent in 2017, 3.3 percent in 2018, and 3.5 percent in the first half of 2019.¹

2. **Poverty rates vary across the country as fiscal and conflict-related pressures amplify traditional factors of vulnerability.** Ukraine is characterized by significant regional disparities, and the benefits of past economic growth have not been shared evenly. Poverty remains higher in rural areas (8.5 versus 5.1 percent), where local communities face challenges such as poor living conditions, outdated infrastructure, and limited public services provision. Inflows of internally displaced persons (IDPs) due to the conflict have put an additional strain on local resources and services in host communities. Reversing the trend of increasing poverty rates and promoting shared prosperity remain significant development challenges that require Ukraine to capitalize on the drivers of growth through structural, policy, and investment reforms and the development of human capital.

3. **The conflict in Eastern Ukraine has impacted the lives and livelihoods of over five million Ukrainians through damage to infrastructure, interruption of markets and services, restrictions of movement, loss of employment, and psychosocial impacts.** To date, over 13,000 people have been killed and 2.7 million persons displaced, including over 1.3 million internally displaced. Despite the extension of the ceasefire agreement in February 2015 (Minsk II), the security situation remains volatile, with daily hostilities occurring along the contact line.

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line separating Government-Controlled Areas (GCAs) and Non-Governmental Controlled areas (NGCAs) in Eastern Ukraine.

4. The conflict has severely impacted socioeconomic activity in Ukraine’s eastern industrial heartland of Donetsk and Luhansk Oblasts. Prior to the conflict, these areas (referred to as “the Donbas”) accounted for 12.5 percent of Ukraine’s population and generated 15.7 percent of the country’s total GDP and a quarter of its exports. Because of the conflict, an estimated 70 percent of enterprises in the Donbas have reported decreased investment and revenues, disrupted trade relationships, lack of demand for products, and shrinking workforces. A World Bank survey of the socioeconomic impacts of the conflict in 2017 highlighted the welfare and socioeconomic challenges facing IDPs, veterans, and host communities.

5. Since taking office in May 2019, Ukrainian President Volodymyr Zelenskyy has made outreach and development support to Eastern Ukraine a key policy priority, emphasizing socioeconomic integration of the region. This policy shift represents a window of opportunity for the World Bank to support the GoU in promoting the recovery and development of conflict-affected areas. Luhansk Oblast GCAs are proposed as the geographic focus for initial World Bank investment because of their acute lack of connectivity and economic opportunity compared to other areas of Eastern Ukraine, to complement and leverage other international partner funding more heavily concentrated in Donetsk Oblast, and to promote economic recovery of the region through a focus on agricultural development in line with the Bank’s broader support for Ukraine’s land and agricultural sector reform agenda as a future engine of economic growth.

Sectoral and Institutional Context

6. Economic impacts of the conflict have been among the most acute in Luhansk Oblast. With the division into GCAs and NGCAs, the oblast’s rural and agricultural north was severed from its industrialized and more urbanized south. Out of a pre-conflict population of 1.5 million people, Luhansk GCAs now have an estimated population of 692,000 people. Twenty-two of the region’s 34 cities, including Luhansk City as the oblast regional center, are now located in the NGCAs. An estimated 84 percent of the industrial capacity and 81 percent of all jobs in Luhansk Oblast have been left outside of the GCAs. Unemployment in the GCAs reached 17.5 percent among working age individuals in 2018, the highest of any oblast and the region has experienced the sharpest decline of any oblast in GDP between 2010-2017. While outmigration from Luhansk Oblast averaged 4,000 to 6,000 individuals per year during the 2008-2013 pre-conflict period, it has since increased to more than 13,000 people per year.

7. Luhansk GCAs also face severe connectivity challenges and lack a quality transport system to serve as a backbone of the regional economy. Before 2017, the financial and institutional arrangements in Ukraine’s road sector created a large backlog of periodic maintenance and rehabilitation. The shortage of funding, combined with a large share of overweight trucks, has resulted in premature deterioration of the network. From 2011 to 2016, the share of national roads in poor condition (with an International Roughness Index (IRI) > 6) disrupted trade relationships, lack of demand for products, and shrinking workforces.2 A World Bank survey of the socioeconomic impacts of the conflict in 2017 highlighted the welfare and socioeconomic challenges facing IDPs, veterans, and host communities.3

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increased from 5 to 17 percent. Ukraine is also currently ranked 66th of a total of 160 countries in the World Bank’s 2018 Logistics Performance Index and lags behind the best performers in the region and all European Union (EU) member states. For Luhansk Oblast, connectivity and logistical challenges are particularly acute. In a national comparison, Luhansk Oblast GCAs ranked as having the lowest connectivity level, based on its low proportion of roads per square kilometer and the limited access of its cities to major national markets. Major upgrading of the regional road network has not been undertaken since the 1980s. Luhansk’s transport system has also been severely impacted by the interruption of rail lines and road networks due to the conflict, resulting in an increase in overweight trucks transporting products over long distances. The average IRI on the network in Luhansk Oblast in 2017 was approximately 6.54, well below the national average.

8. **The long-term industrial decline and the recent conflict have increased the prominence of the agricultural sector in the Luhansk GCA economy and its importance to rural livelihoods.** Before the conflict, the share of agriculture in the regional economy was about 10 percent and about 10 percent of the labor force was employed in the sector. Today, about 76 percent (or 1.5 million hectares) of the total agricultural land of the Donbas is located in the GCAs of Luhansk Oblast, with a growing percentage of workers employed in the agricultural sector. In the majority of Luhansk GCA districts, agriculture is the leading economic activity and sector of employment. In 2018, 23 percent of new jobs created were in agriculture, more than any other sector. As of 2018, a total of 964 agro-industrial enterprises and more than 45,200 private family farms were involved in agricultural production. These family farms provide significant numbers of informal employment and support to rural livelihoods in the region. The sector remains critical because of its role as an employer of last resort and its importance for livelihoods for rural populations in the region. Luhansk’s regional development strategy highlights agricultural development as a key objective, including increasing productivity and efficiency and facilitating processing and access to markets. The project’s focus on agricultural development in Eastern Ukraine also aligns with the Bank’s broader support for Ukraine’s land and agricultural reform agenda as a future engine of Ukraine’s economic growth and development. Finally, interventions in the agricultural sector, such as the introduction of new technologies and the development of value chains, are likely to be more efficient and cost effective for recovery than focusing on the restructuring or reconstruction of the former and now uncompetitive industrial sector.

9. **However, the conflict has resulted in significant negative impacts on agricultural supply and value chains in the region.** Cereal and oil seed production has remained by far the most important agricultural activity, with 57 percent of arable land cultivated with cereals and sunflowers. Prior to the conflict, Luhansk Oblast relied on the Luhansk-Valuyki railway and road connections for the transportation of agricultural goods. Commodity flows have now been reoriented westward towards the Kharkiv region via longer, poorer quality road connections that have increased the required road haulage distance by an average of 65 kilometers. In 2018, transport costs for commodities increased by UAH 140-190 per ton of cargo, which impacted profitability and income. The resulting increased truck traffic has hastened the deterioration of the oblast’s primary and secondary road network. In addition, many of the large-scale grain and oil storage, processing, and logistical

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facilities, and most of the food processing industry and modern laboratory testing facilities are now located in the NGCAs and are therefore inaccessible. Production costs have also increased because of higher prices for the import and transportation of agricultural inputs, such as fuel and lubricants, seeds, and fertilizers.

10. **Subsistence farming is widespread in Luhansk GCAs and is critical in supporting basic livelihoods in rural areas but small and household farmers producing vegetables, fruits, dairy products, and meat have lost access to aggregators and to the urban markets of Luhansk NGCAs, which accounted for over half of the oblast’s pre-conflict population.** These producers now also face challenges because of the lack of access and investments in on-farm innovation and technology; limited storage, laboratory services, and processing facilities; and poor access to finance that would allow them to transition from subsistence level to more market-oriented production. These challenges are exacerbated by the general uncertainty about the prospects of a political settlement and reintegration of NGCA urban markets and trade.

11. **Youth, IDPs, and veterans in Luhansk Oblast face particular development challenges.** Among the average of 13,000 individuals that migrate from the GCAs each year, 67 percent are under 28 years of age, driven by limited opportunities for civic engagement, limited prospects for well-paying employment, and concern over poor social infrastructure for young families. Luhansk Oblast ranks second to Donetsk Oblast in the number of IDPs per oblast, with over 270,000 people officially registered. Tensions with host communities are low, however, and IDPs are well represented among employees of public service institutions. Yet IDPs face difficulties in accessing land, obtaining satisfactory housing, and joining established agricultural networks within the GCAs of Luhansk. Most IDPs have skills in engineering, processing, and other mechanical or technical trades that they acquired in their home areas, which are now in NGCAs. Veterans in Luhansk Oblast, as elsewhere, have to contend with unemployment and difficult transitions to civilian life, lack of psychosocial and rehabilitation support, long absences from farming and assets, and difficulty securing their benefit entitlements.

12. **The conflict has exacerbated gender gaps, particularly for rural women.** With men being predominantly engaged in military operations, women have taken on greater responsibilities for household affairs, with many becoming sole caregivers for their families, the elderly, and the disabled. Female pensioners, women IDPs, and female-headed households with young children are particularly vulnerable to the conflict-induced social disruption prevalent throughout Luhansk Oblast. Poor road conditions and the resulting longer commutes via personal vehicles as well as limited and neglected public transport systems also disproportionately disadvantage rural women’s mobility in the region and their access to employment, healthcare, childcare, and other public services. Poor mobility also constrains women’s access to more diverse employment opportunities and more lucrative markets. Many women in rural Luhansk GCAs are engaged in agricultural production at a small-scale or household level. However, the supplementary income and food security gained from farming activities is limited by poor access to markets, limited productive inputs (both advisory and technological), and lack of access to information and skills development around value chain development and value-added production.

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15 Focus group discussions as part of a WB *Rapid Gender Assessment for Luhansk GCAs* during project preparation, February 2020.

16 National official labor force participation rates reflect these realities. Employment among Ukrainian women (47%) is lower than among men (63%). UNDP. 2019. *Human Development Report*.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)
To strengthen transport connectivity and improve agricultural services with the active engagement of conflict-affected communities in project areas in Eastern Ukraine.

Key Results
- Travel time from agricultural communities to service centers/markets in Luhansk GCAs
- Increased use of agricultural hub and laboratory services (disaggregated by type of producer/institution, small-/medium-/large-sized enterprises, women-headed enterprises)
- Percentage of target beneficiaries of agricultural clusters reporting improved production (disaggregated by gender, youth, veterans, production type)
- Percentage of target beneficiaries who report that the design/operation of infrastructure investments financed by the project reflect their inputs (disaggregated by gender)

D. Project Description

13. The project seeks to reinforce national commitment to recovery and development of Eastern Ukraine and highlights the benefits of socio-economic connectivity in support of a future settlement. The project’s multi-sectoral investments aim to promote agricultural sector development in rural areas in Luhansk GCAs that could help stimulate future growth and opportunity in the region. Prioritized investments reflect an intensive stakeholder dialogue during project preparation with national, regional and local officials, agri-industry, agricultural producers, agricultural communities, women, IDPs, veterans, and youth in project areas. Recognizing the socio-economic and administrative characteristics of Luhansk GCAs, the project will include the following components:

14. Component 1: RECONNECT - Roads Investments to Link Rural Communities to Processing, Markets, and Services. Component 1 will support the rehabilitation of roads in Luhansk Oblast in support of the agricultural sector and connecting rural communities to urban service centers in Luhansk GCAs. Poor and deteriorating local roads have been a key bottleneck to agricultural logistics and supply chains and the broader development of the region. Component 1 prioritizes road investments that link farmers to processors, markets, and service centers in Luhansk GCAs. The target road network will be rehabilitated to a category 2-3 standard which is a two-lane road with safety specifications including side crash barriers where required. The project will finance all necessary road infrastructure such as bridges, interchanges, and railway crossing, safety measures, site supervision of civil works, and equipment. Additionally, for protection of the investments, the project will include installation of weigh-in-motion stations and speed cameras. The Component will also include activities to engage local administration and communities in project areas on road use, road safety measures, and will provide technical assistance to support development of ‘feeder roads’ to the network. This is expected to promote local ownership and sustainability of transport investments.

15. Component 2: RECOVER - Agriculture Investments to Support Sector Recovery and Modernization. Component 2 will complement the connectivity investments of Component 1 through select agricultural sub-projects that address some of the conflict’s impacts on the agricultural sector in Luhansk GCAs, including loss of access to agricultural services, processing facilities, product testing and local urban markets, as well as limited
technology and value chain to market support for the Oblast’s many small producers. Component investments will include: (a) an *Agriculture Logistics and Service Hub* in Starobilsk City, including a grain/oil seed elevator; a small grain/oil seed quality testing facility; an office building for administration and business development support; an innovative online trading platform to link producers and traders; and an agricultural services support area; (b) a *Regional Agricultural Testing and Food Safety Laboratory* to address a critical gap following the loss of access to the agricultural product testing and food safety management services due to the conflict; and (c) *Agricultural Cluster Development* for small household-level producers. Community-based Cluster support will facilitate the transition from current subsistence production towards more organized and market-oriented production practices, including value-chain to market support to an estimated 5 to 10 clusters of 100 to 150 small household-level producers. The component will also finance the associated detailed design studies.

16. **Component 3 - REVITALIZE: Implementation Support Platform.** Component 3 will support the development of an implementation support platform to address management capacity constraints, deficits in state-citizen dialogue, and requirements for national-regional-local cooperation to effectively deliver the project activities. Component 3 will finance Project Management activities for the MRTOT. Component 3 will also include the following activities: *Luhansk regional public-private investment forums* to gather project beneficiaries, international and Ukrainian private sector representatives, international and domestic financial institutions, GoU representatives, and development partners to raise awareness and promote investment opportunities in the region; *user/beneficiary surveys and community forums* to provide feedback on project design and implementation (project processes, budgets and outcomes) for infrastructure investments under Components 1 and 2; and a *3R Project beneficiary feedback mechanism (BFM)*, including *Grievance Redress Mechanism (GRM)*. To educate communities and stakeholders in project areas on the objectives, procedures, purpose, and opportunities associated with the project and to emphasize the project as a national investment to support economic recovery in Eastern Ukraine, Component 3 will also finance strategic communications activities. The implementation platform supported by Component 3 will promote sustainability and possible future scale-up and expansion of Project investments to additional sectors and geographic areas in Eastern Ukraine.

### Legal Operational Policies

<table>
<thead>
<tr>
<th>Legal Operational Policies</th>
<th>Triggered?</th>
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<tbody>
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<td>Projects on International Waterways OP 7.50</td>
<td>No</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP 7.60</td>
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### Summary of Assessment of Environmental and Social Risks and Impacts

17. **The proposed project is expected to have substantial environmental and social risks.** The Environmental and Social Risk Classification is based on the potential environmental and social risks associated with project activities, as well as project location (proximity to conflict areas) and baseline conditions, overall scale of the project, possible cumulative impact and anticipated challenges in environmental and social risk management supervision due to limited client capacity.

18. **Environmental risks.** Although the specific sites where physical works will take place are mostly existing roads and urbanized areas, key environmental issues will be related to: (a) waste management of removed road
surfaces and construction spoils; (b) noise and air pollution with dust; (c) the presence and handling of hazardous materials such as bitumen, paint, oil containing materials; (d) the health and safety of the populations of the villages and towns along the roads and travelers during road rehabilitation phases, as well as the populations living near the agriculture-related investment construction sites; and (e) impacts on water, soil, and air quality in case of construction-related spills. These predictable impacts are expected to be temporary, reversible, moderate in magnitude, and site-specific. The location of the project near the armed conflict zone and in a post-conflict territory raises the risk of unexploded ordnances (UXOs) and some of the locations may require demining activities to take place before civil works. Adequate adoption of UXO neutralization procedures and occupational health and safety practices for workers during construction and maintenance operations will be required. Also, the agricultural logistics and service hub is required to adopt HACCP (Hazard Analysis and Critical Control Point) and integrate it into its operational model.

19. **Social risks.** Social issues and potential risks identified include: one, works to be financed under components 1 and 2, and associated ESS5 impacts, particularly under component 1 roads investments; two, engagement with local communities and other relevant stakeholders (including with most vulnerable and disadvantaged groups) and challenges in ensuring their genuine participation in decision-making processes of the project; three, the challenging social environment and baseline conditions in Eastern Ukraine due to conflict; and four, limited capacity of Ukravtodor as well as MRTOT in handling ESF requirements. In addition to these risks, the evolving situation around the COVID-19 pandemic may also potentially impact project implementation, particularly given public health guidelines on physical distancing and quarantine. Meaningful community engagement will be a challenge in the project areas. To mitigate this risk, implementing entities prepared a draft Stakeholder Engagement Plan (SEP), which among others, suggests preliminary tools (such as virtual consultations, etc) to ensure continuous community engagement. Consultation, communication, and feedback mechanisms in the design of the project will help to manage expectations, especially for large infrastructure projects, and orient investments in ways that address local priorities and strengthen transparency in resource allocation decisions.

20. **Environmental and Social Framework instruments.** Detailed analysis of the application of the World Bank’s Environmental and Social Standards (ESSs) has been provided as part of the Environmental and Social Review Summary (ESRS). The project applies ESS 1-6, 8, and 10 as relevant at this stage of development and needed environmental and social measures will be implemented through the actions agreed in the respective Environmental and Social Commitment Plan (ESCP) prepared by UAD and MRTOT and submitted to the World Bank. The Environmental and Social Management Framework (ESMF) with template ESMP, draft SEP, draft RPF and Labor Management Procedure were developed and will be updated during project implementation as required. Once the project activities are finalized and environmental and social assessments completed, additional measures such as subproject-specific Environmental and Social Management Plans (ESMPs), Traffic Management Plans (TMP) and Waste Management Plans (WMPs) are to be prepared. A project-specific Grievance Redress Mechanism (GRM) will be established as outlined in the ESMF.

**E. Implementation**

**Institutional and Implementation Arrangements**

21. Because the project is a multi-sectoral program of support for socio-economic recovery and growth in Luhansk Oblast, it requires the involvement of government agencies responsible for recovery/IDPs/veterans, transport, agriculture, local infrastructure, and economic development; as well as regional and local officials in
Luhansk Oblast project areas. The implementation arrangements will also encourage opportunities for interaction and dialogue between national and local levels of administration on project activities. The Bank team agreed specifically on the following:

- **UAD will implement Component 1** through its central Project Implementation Unit (PIU) – SOE “Ukrdorinvest” (UDI) – and in coordination with the regional UAD office in Luhansk Oblast. Ukrdorinvest has experienced staff with project management, procurement, FM, and social and environmental safeguards experience. Ukrdorinvest will also coordinate with the regional UAD office in Luhansk Oblast to support supervision activities and to liaise with local authorities and communities.

- **MRTOT will implement Components 2 and 3,** drawing on its mandate for conflict-recovery efforts and to support establishment of an implementation support platform for national investment in Eastern Ukraine. MRTOT will implement the project through a central PIU and place select PIU staff in the already established Sector Office in Luhansk Oblast to carry out coordination, monitoring, communications and oversight functions in close coordination with local authorities.

- **A Project Steering Sub-Committee** will be established under the current Inter-Governmental Council on Recovery of the Eastern Regions chaired by MRTOT, or any relevant successor coordination body on conflict-recovery. The Sub-Committee will include participation of relevant national-level agencies, including Ministry of Infrastructure, UAD, MDETA, Ministry of Finance, and the Luhansk Oblast State and Civil-Military Administration. The Sub-Committee will be chaired by MRTOT and provide overall strategic guidance and oversight to the 3R Project.

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