Loan Agreement

(Additional Financing for the Social Safety Nets Modernization Project)

between

UKRAINE

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between UKRAINE ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower the amount of one hundred and fifty million Dollars, ($150,000,000), as such amount may be converted from time to time through a Currency Conversion ("Loan"), to provide additional financing for Part 1 of the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.

2.06. The Payment Dates are February 15 and August 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower, through MOSP, shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.
ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following, namely, that the Borrower’s GMI Program Legislation has been amended, suspended, abrogated, repealed or waived, so as to affect materially and adversely the ability of the Borrower to carry out the Project or to perform any of its obligations under this Agreement.

4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consist of the following, namely, that the Borrower, through MOSP, has approved the POM, in a manner acceptable to the Bank.

5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

5.03. Without limitation to Section 10.02(b) of the General Conditions, any modification to this Agreement shall be executed by written instrument agreed by the parties hereto. Such amendment shall become effective as set forth in the amending agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is the Borrower’s Minister of Finance.

6.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower’s address is:

Ministry of Finance
12/2 M. Hrushevskoho Str.,
Kyiv, 01008
Ukraine; and

(b) the Borrower’s Electronic Address is:

Facsimile: +38 (044) 425-90-26
E-mail: infomf@minfin.gov.ua

6.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank’s address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and
(b) the Bank’s Electronic Address is:

Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391
E-mail: akremer@worldbank.org
AGREED as of the Signature Date.

UKRAINE

By

Authorized Representative

Name: Sergii Marchenko
Title: Minister of Finance of Ukraine
Date: May 05, 2020

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

Name: Alexander Kremer
Title: Acting Country Director for Belarus, Moldova, and Ukraine
Date: May 05, 2020
SCHEDULE 1

Project Description

The objective of the Project is to improve the performance of the Borrower’s social assistance and social services system for low-income families.

The Project consists of the following parts:

Part 1. Improving Social Assistance Provision to the Most Vulnerable

Provision of financing of Payments under the EEP in support of the expansion of the GMI Program, in accordance with the provisions set forth in Section III of Schedule 2 to this Agreement, specifically in the following four key areas:

(a) increased access of the extreme poor to the GMI Program;
(b) improved administration of social benefits and social services;
(c) enhanced provision of family-based care to support orphans, children deprived of parental care, families in need and vulnerable families; and
(d) introduction of temporary social assistance measures to mitigate the impact of COVID-19 pandemic on the welfare of vulnerable groups.

Part 2. Supportive Investments for Institutional Strengthening for Administration of Social Assistance and Social Services

2.1. Strengthening institutions and improving information management through:

(a) transformation of the management information system (MIS) into a web-based system;
(b) application software development to include modules aimed to automate business processes for social services delivery, 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 an integrated information security system;
(c) 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 the population, families and children, centers for social services for families, children and youth, offices for children affairs, territorial
centers, resident homes, centers for rehabilitation of the disabled and centers for the homeless; and

(d) training of local level social workers of the above offices and institutions to operate the new MIS and on the new models for social work.

2.2. Developing, establishing and implementing mechanisms to strengthen oversight and controls through:

(a) support for revisions in legislation and regulations related to the status of the Borrower's social inspectorate and its investigative powers, recovery of over-payments and sanctions policy;

(b) development of operational manuals for the social inspectors;

(c) training of social inspectors;

(d) assistance in conducting one thematic inspection per one of risk-prone social assistance program;

(e) development of a risk-profiling system and assistance in conducting one thematic inspection using an adequate risk-profiling system;

(f) establishment of a hot-line to serve as a channel of redress; and

(g) provision for the social inspectorate of the necessary office equipment, vehicles, furniture and hardware.

2.3. Developing new business models for administering benefits and services through:

(a) development of an institutional framework for outsourcing services;

(b) development of service delivery standards for administration of benefits and services and social patronage of families in difficult living conditions; and

(c) development of options to support the beneficiaries' graduation agenda, through development of activation measures.

2.4. Improving communications, promotion and outreach through supporting the development and implementation of a communications and outreach strategy to support the expansion of GMI Program and the child de-institutionalization reform.

2.5. Project coordination and management through provision of Project implementation support, including technical assistance to manage and monitor financial management and procurement, implementation of deinstitutionalization plans and service outsourcing in selected oblasts, and financing of Training and Operating Costs.
Part 3. Supportive Investments for Increasing Provision of Family-based Care to Support Orphans, Children Deprived of Parental Care, Disabled Children and Vulnerable Families in Selected Oblasts

3.1 Implementation of investments for:

(a) childcare de-institutionalization by providing orphans and children deprived of parental care and disabled children with a family environment through foster care, adoption and placement in family-type homes;

(b) transformation of residential institutions; and

(c) purchasing of new services from private and non-governmental providers for vulnerable families, through financing of services, equipment and furniture for family homes and internats, as well as training and retraining of social workers.

3.2 Technical assistance for the design and implementation of transformation plans for transforming residential care into family-based care in selected Oblasts.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

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 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; and

(c) through MOSP, maintain the 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.

B. Environmental and Social Safeguards

1. The Borrower, through MOSP, shall ensure that the Project activities are carried out in accordance with the ESMF, and any site specific EMPs, including the guidelines, rules and procedures defined in said instruments. To that end, the Borrower shall 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 ESMF: (i) such EMP shall be prepared in accordance with the requirements of the ESMF, disclosed locally and furnished to the Bank; (ii) adequate and meaningful consultations shall be carried out on said EMP; and (iii) the 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.

2. The Borrower, through MOSP, 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.
Section II. Project Monitoring Reporting and Evaluation

The Borrower, through MOSP, shall furnish to the Bank each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of Loan Proceeds

A. General.

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and (ii) each Interest Rate Cap or Interest Rate Collar premium; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Payments under the EEP under Part 1 of the Project</td>
<td>149,625,000</td>
<td>100% of the amount up to withdrawal ceiling set forth in the table set forth in Schedule 4 to this Agreement</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>375,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(3) Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
<td>Amount due pursuant to Section 4.05 (c) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>150,000,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments under Category (1), for which withdrawal request has been submitted, unless the Borrower, through MOSP, has submitted evidence satisfactory to the Bank that: (i) 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; and (ii) and that said Payments under the EEP have not been represented before to the Bank as satisfactory evidence for withdrawals under this Agreement.

2. Notwithstanding the provisions of Part A of this Section and without limitation to the provision set forth in paragraph 1 above, withdrawals under Category (1) shall be made
only after the Borrower, through MOSP, has furnished to the Bank evidence acceptable to the Bank in its form and content, and following the requirements set forth in the POM, confirming the achievement of the respective DLR set forth in Schedule 4 of this Agreement.

3. Notwithstanding the provisions of paragraph 2 of this Section, if DLRs have not been achieved, the Bank may, at any time, by notice to the Borrower, decide, in its sole discretion, to: (a) reallocate all or a portion of the proceeds of the Loan then allocated to said DLR to any other DLR; or (b) cancel all or a portion of the proceeds of the Loan then allocated to said DLR.

4. 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 Payments under the EEP; or (b) not in compliance with the provisions of Section III.B.2 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.

5. The Closing Date is March 31, 2023.
## SCHEDULE 3

### Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share").

**Level Principal Repayments**

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15 Beginning August 15, 2025 through August 15, 2037</td>
<td>3.85 %</td>
</tr>
<tr>
<td>On February 15, 2038</td>
<td>3.75 %</td>
</tr>
<tr>
<td>DLI</td>
<td>DLR</td>
</tr>
<tr>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>DLI 18: Improving efficiency and targeting of state support to the poor and vulnerable</td>
<td>DLR # 18.1.1 Modifications to legislation to expand the GMI Program and reduce welfare dependency of GMI Program’s beneficiaries have been enacted.</td>
</tr>
<tr>
<td>18.1 Expanding GMI program to promote comprehensive and equitable coverage of the poor</td>
<td>DLR #18.1.2 Second stage changes to expand the GMI Program by introducing measures to increase the overall family income threshold used to define the family eligibility for the GMI Program have been completed.</td>
</tr>
<tr>
<td></td>
<td>DLR #18.1.3 The GMI Program budget has been increased from 0.3% of GDP in calendar year 2019 to 0.6% of GDP.</td>
</tr>
<tr>
<td>18.2 Increasing targeting accuracy of the HUS program</td>
<td>DLR #18.2.1 A CMU Resolution re-parameterizing mandatory out of pocket payment share parameter in HUS benefit formula from 15% to 20% has been implemented.</td>
</tr>
<tr>
<td></td>
<td>DLR #18.2.2 Measures to improve targeting of HUS by strengthening error and fraud control have been introduced.</td>
</tr>
<tr>
<td>DLI 19: Promoting introduction of complementary social and activation services for GMI beneficiaries to escape the poverty trap</td>
<td>DLR #19.1 A CMU Resolution on the rules for the provision of financial support to promote self-employment and small business development for GMI Program beneficiaries, stipulating the amount of support and repayment procedures has been adopted.</td>
</tr>
<tr>
<td></td>
<td>DLR #19.2 A pilot to connect GMI Program beneficiaries with social services using a modern client profiling system to match</td>
</tr>
</tbody>
</table>
beneficiaries to services has been developed and launched in two pilot Oblasts.

<table>
<thead>
<tr>
<th>DLR #19.3 Integrated social services for GMI Program beneficiaries have been introduced nationwide.</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000,000</td>
</tr>
</tbody>
</table>

**DLI 20: Rationalizing benefits to improve their targeting and administrative efficiency**

<table>
<thead>
<tr>
<th>DLR #20.1 Legislation to unify means tested benefits, including for single mothers, has been enacted.</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DLR #20.2 Legislation to delink wages of public officials from Subsistence Minimum has been enacted.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,000,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DLR #20.3 Measures to recertify one categorical benefit have been implemented.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,625,000</td>
</tr>
</tbody>
</table>

**DLI 21: Introducing of temporary social assistance measures to mitigate the impact of COVID-19 pandemic on the welfare of vulnerable groups**

<table>
<thead>
<tr>
<th>DLR #21.1 Legislation to provide one-off cash assistance for vulnerable pensioners has been enacted.</th>
</tr>
</thead>
<tbody>
<tr>
<td>20,000,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DLR #21.2 Legislation to provide one-off cash transfer to the beneficiaries of Disability Programs has been enacted.</th>
</tr>
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<tbody>
<tr>
<td>10,000,000</td>
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</tbody>
</table>

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<tr>
<th>DLR #21.3 Legislation has been enacted to: (i) relax the eligibility requirements for the GMI Program and Disability Programs and to extend the duration of their benefits; (ii) simplify requirements for enrollment in the HUS program and temporary increase the benefits to mitigate the impact of increased utilities’ expenses during the COVID-19 quarantine measures; and (iii) remove restrictions preventing enrollment in HUS for individuals who lost their jobs as a result of the COVID-19 quarantine measures.</th>
</tr>
</thead>
<tbody>
<tr>
<td>20,000,000</td>
</tr>
</tbody>
</table>
APPENDIX

Definitions

1. "Anti-Corruption Guidelines" means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

2. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

3. “CMU” means the Cabinet of Ministers of Ukraine.


6. "DLIs" means the Disbursement-linked Indicators as set forth in Schedule 4 to this Agreement.

7. "DLRs" means the Disbursement-linked Results as set forth in Schedule 4 to this Agreement.

8. "EEP" means Eligible Expenditure Programs, namely a portion of the Borrower's budgetary allocation for financing benefits under GMI Program.

9. "ESMF" means the environmental and social management framework prepared by the Borrower, for the Project dated March 27, 2020, being the framework setting forth the modalities for site-specific environmental screening and procedures/actions for the preparation and implementation of environmental assessments and EMPs under the Project, setting forth the set of mitigation, monitoring, and institutional measures and procedures required under the Project, in order to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement said measures, as the same may be amended from time to time with the agreement of the Bank.

10. "Environmental Management Plan" or "EMP" means any site-specific environmental management plan, prepared in accordance with the ESMF and the provisions of Section I.B.1 of Schedule 2 to this Agreement and acceptable to the Bank, and giving details the
specific actions, measures and policies designed to facilitate the achievement of the objective of the ESMF, setting forth the mitigating, monitoring and institutional measures to be taken during the implementation and operation of Project activities and the Subprojects, to offset or reduce adverse environmental impacts to levels acceptable to the Bank, including the budget and cost estimates, and sources of funding, along with the institutional and procedural measures needed to implement such actions, measures and policies.


12. "GMI Program" means the Borrower's enhanced last resort anti-poverty program called Guaranteed Minimum Income established by the Borrower's Law "On State Social Assistance for Low-Income Families" dated June 01, 2000 No.1768-III.


14. “HUS” means Housing and Utilities Subsidy, the Borrower's social assistance program established by the Borrower’s Resolution of the Cabinet of Ministers of Ukraine No. 807 dated August 14, 2019.

15. "MOSP" means the Borrower's Ministry of Social Policy and includes any successors thereto.

16. "Oblast" means a prime administrative-territorial unit of the Borrower forming the territorial basis for organization and operation of the local government bodies and local self-governments.

17. “Operating Costs” means the 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.

18. "Payments under the EEP" means monthly transfer payments, conducted by the Borrower to eligible beneficiaries under the GMI Program, made in accordance with the eligibility criteria, terms and provisions set forth in the respective Borrower’s laws and regulations applicable to the GMI Program.

19. "PMG" means the MOSP's Project Management Group for the Project, referred to in Section 1.A.1(c) of Schedule 2 to this Agreement.
20. "POM" means the Project Operational Manual referred to in Section I.A.1 of Schedule 2 of this Agreement, adopted by the MOSP for the Project, as the same may be amended from time to time with the prior written approval of the Bank.


22. “Subsistence Minimum” means the cost of food, goods and services sufficient to ensure the normal functioning of the human body and preserving health and to meet the basic social and cultural needs of a person, established pursuant to the Borrower’s Law of Ukraine “On Subsistence Minimum”, No. 966-XIV dated July 15, 1999 (amended on December 19, 2017).

23. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.