

## The World Bank's role in inclusive and sustainable local recovery for Ukraine

Since 2022, the World Bank's work in Ukraine has had a decisive impact on shaping the public and private investment environment,<sup>1</sup> assisting with reforms,<sup>2</sup> and evaluating the damages and needs for the country's reconstruction strategy. The national recovery strategy needs priorities, a holistic vision for the country's development and provisions for inclusive, bottom-up participation. The World Bank can enhance the national strategy for recovery through its new Program-for-Results (PFRs) 'Supporting Reconstruction through Smart Fiscal Governance' (SURGE)<sup>3</sup> by ensuring proper public and sub-national level actors' engagement within recovery and updating the Rapid Damage and Needs Assessment Report, particularly regarding damages and needs for municipalities.

Ukraine is considered to have a vibrant and capable civil society, and practice proves that active civil society strengthens national and local capacity in policy work and hands-on projects. That's why meaningful cooperation and partnership with civil society in local decision-making are vital in bringing about effective and inclusive local development. Specifically, the EU's experiences in organising EU funds monitoring committees can be applied for better inclusion of local civil society organisations (CSOs) and local governments on Ukraine's way to EU membership.<sup>4</sup>

Decentralisation reforms launched in 2014 have enabled Ukrainian communities to remain resilient and promptly respond to the challenges of war. This is where the need for recovery still occurs the most. Actively involving local self-governments in all stages of the national public investment management processes and in decision-making bodies (e.g. the Strategic Investment Council) ensures they have a voice.

### Supporting Reconstruction through Smart Fiscal Governance (SURGE) Program-for-Results

Since 2022, almost all international support has been funnelled into the state budget, posing a major challenge for communities that desperately need to access international support to meet their reconstruction needs.<sup>5</sup> This has led to a situation where many local governments struggle to access the necessary funds for their reconstruction efforts, particularly in smaller communities.

The Program-for-Results (PFR) for 'Supporting Reconstruction through Smart Fiscal Governance' (SURGE),<sup>6</sup> is scheduled for the WB Board approval on 7 November 2024. CEE Bankwatch Network and its Ukrainian member group Ecoaction strongly support its

<sup>1</sup> Since full scale invasion in February 2022, the WBG has mobilised nearly USD 50 billion as financial support to Ukraine, of which 78 per cent has been disbursed as beginning of October 2024. World Bank Group, [World Bank Group Financing Support Mobilization to Ukraine since February 24, 2022](#), World Bank, 17 October 2024.

<sup>2</sup> Cabinet of Ministers of Ukraine, [Ukraine's Reforms Matrix](#), Cabinet of Ministers of Ukraine, 25 September 2024.

<sup>3</sup> World Bank, [Supporting Reconstruction through Smart Fiscal Governance \(SURGE\)](#), World Bank, accessed 15 October 2024.

<sup>4</sup> In 2014 the European Code of Conduct on Partnership was introduced and attached to the Common Provision Regulation, becoming mandatory for all the EU Member States. Vladlena Martsynkevych, Francesca Canali, [Applying best practices from EU funds to the reconstruction of Ukraine](#), CEE Bankwatch Network, 2022.

<sup>5</sup> Mariia Lukyanova, [Ukraine's recovery on the ground: mapping financial resources and solutions for municipalities](#), CEE Bankwatch Network, 2023.

<sup>6</sup> World Bank, [Supporting Reconstruction through Smart Fiscal Governance \(SURGE\)](#).

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objective: ‘To establish the institutional foundations for implementation and financing of climate-smart recovery and reconstruction.’ We believe that addressing the numerous challenges outlined below through the ‘PIM Reform Roadmap’ program would ensure significant improvements. This approach would deliver a greater impact on Ukraine’s inclusive and sustainable reconstruction process.

## 1. The current methodology of recovery planning and financing does not involve local governments

Proactive municipalities are now busy updating strategic documents and preparing recovery plans and programs to be more capable of engaging with public investment, donors, and partners. The ‘Investment Instruments of Regional Policy’ task of the State Strategy for Regional Development envisages the introduction of **new approaches to public investment management in strategic planning and implementation documents** of the state regional policy.<sup>9</sup>

The WB’s Diagnostic Assessment Report<sup>7</sup> on Public Sector Investment, the Roadmap to it, and the Action Plan reveal two critical insights into Public Investment Management (PIM) in Ukraine:

- **A substantial portion of public capital expenditures financing is financed through local budgets**, but there is a lack of comprehensive guidelines for municipalities to manage these funds effectively.<sup>8</sup>
- The Roadmap for Reforming PIM defines **local self-government bodies as participants in public finance** management alongside Ministries and state institutions.<sup>9</sup> Thus, **they should be treated as equal partners**, with measures included for them within the future Action Plan 2026 for the Implementation of the Roadmap for Reforming PIM.

The European Union’s EUR 50 billion financial instrument, the Ukraine Facility, envisages the allocation of ‘at least 20 % of the non-repayable financial support... to the recovery, reconstruction and modernisation needs of Ukraine’s subnational authorities, in particular local self-government’ within the Investment Framework.<sup>10</sup> Consequently, international PIM partners should assist in developing and approving methodological recommendations for public investment projects at regional and local levels. These recommendations should cover the entire project lifecycle, including preparation, screening, prioritisation, evaluation, selection, risk identification, implementation, monitoring, and effectiveness evaluation. Furthermore, they should establish a clear division of functions among all process participants.

The PIM Action Plan applies only to state institutions: the Ministry of Economy, the Ministry of Infrastructure, and the Ministry of Finance. They are responsible for developing this methodology without involving local self-governments, and this approach should be changed in order to engage with and include governments at the municipality level.

## 2. The current sectoral distribution and prioritisation of Single Project Pipeline projects is inadequate

The national Strategic Investment Council has approved the single project portfolio for public investment. It consists of 750 project concepts prepared by 42 applicants (mainly ministries and regional state administrations, and no municipalities). Information about Single Project Pipeline (SPP) projects is posted on the DREAM platform.<sup>11</sup> NGOs are alarmed by the quality of the proposed investments, their sectoral distribution, and prioritisation.<sup>12</sup> The classification

<sup>7</sup> Ministry of Finance, [Ukraine - Public Investment Management Diagnostic Assessment Report](#), Ministry of Finance, December 2023.

<sup>8</sup> Ibid.

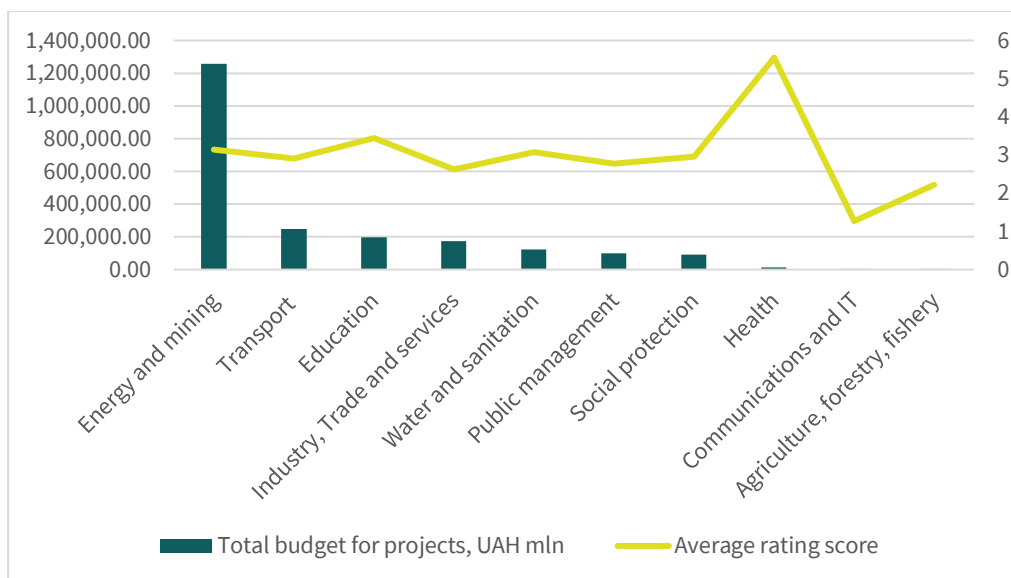
<sup>9</sup> Ministry of Finance of Ukraine, [Roadmap for Reforming Public Investment Management System](#), Ministry of Finance of Ukraine, 8, accessed 15 October 2024.

<sup>10</sup> Official Journal of the European Union, [REGULATION \(EU\) 2024/792 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 29 February 2024 establishing the Ukraine Facility](#), EUR-Lex, 29 February 2024.

<sup>11</sup> Digital Restoration Ecosystem for Accountable Management, [Single project pipeline](#), Digital Restoration Ecosystem for Accountable Management, accessed 15 October 2024.

<sup>12</sup> CEE Bankwatch Network, Preliminary findings and analysis of the Single Project Pipeline, adapted from: Ministry of Finance, [Single Project Pipeline](#), Ministry of Finance.

of sectors of economic activity in the Single Public Investment Projects Portfolio (also called Single Project Pipeline) is carried out according to the taxonomy of the World Bank<sup>13</sup> but needs alignment with the EU's.



**Graph 1:** Sectoral distribution and prioritisation scoring for Single Project Pipeline public sector investments, Source: Source: Bankwatch preliminary analysis of Ministry of Finance data<sup>14</sup>

While the Public Investment Management (PIM) framework emphasises the role of local self-governments, it often fails to.<sup>15</sup> The Strategic Investment Council was created to unify approaches to evaluating and selecting public investment projects, regardless of the source or mechanism of financing, and to create the SPP to ensure prioritisation and access to financing. However, the evaluation of project concepts with the provision of relevant conclusions is still conducted by the three Ministries – Economy, Finance, and Infrastructure. The role of the Agency for Reconstruction in recovery policy implementation has yet to be clearly defined.

### 3. The recovery policy lacks inclusivity, transparency, and avenues for engagement

Ukraine can get inspiration from EU funds practices for organising monitoring committees<sup>16</sup> to help improve the quality of project selection and monitoring. The EU Member States and the European Commission use public participation in line with the European Code of Conduct on Partnership, which is obligatory for all EU Member States according to the Common Provision Regulation. To optimise the transparency and improve the quality of the projects, we recommend **including in the selection committee's work the representatives** of executive authorities, parliamentarians, local self-government bodies, enterprises, institutions and organisations, as well as independent experts, representatives of the civil society and the media. The same approach can be applied to the Strategic Investment Council. A potent solution would involve civil society, which can significantly enhance local authorities' capacities and improve transparency and effectiveness in project implementation. Countless positive cases of such community involvement validate this assertion. Consequently, civil society is integral to reaching the end solution and should not be seen as a passive observer and occasional cooperator.

**The grievance mechanisms within the Ministry of Finance** are proposed in the SURGE Program. While this proposal may seem beneficial, **proactive engagement and consultations are currently more crucial priorities.** Any critical voices related to the Ukrainian Government during Martial Law can be considered inappropriate and could deter experts and activists from raising concerns.

<sup>13</sup> World Bank, [Sector Taxonomy and definitions](#), World Bank, 1 July 2016.

<sup>14</sup> Ministry of Finance, [Single project portfolio for public sector investments](#), Ministry of Finance, September 2024.

<sup>15</sup> Cabinet of Ministers of Ukraine, [Resolution on the Formation of the Strategic Investment Council No. 549.](#), Cabinet of Ministers of Ukraine, 2024.

<sup>16</sup> Official Journal of the European Union, [Commission Delegated Regulation \(EU\) No 240/2014 of 7 January 2014 on the European code of conduct on partnership in the framework of the European Structural and Investment Funds](#), EUR-Lex, 14 March 2014.

## 4. Ukraine's environmental and sustainability commitments are not being enforced

**Environmental commitments must be translated into applicable measures**, plans, and the PIM's financing criteria to support the current emergency as well as the eventual post-war restoration. Due to the martial law and follow-up legal amendments, the reconstruction works are not subject to Environmental Impact Assessments (EIAs). At the same time, Strategic Environmental Assessments (SEAs) do not apply to recovery plans adopted by regions and territorial communities.

In September 2024, despite the opposition from civil society,<sup>17</sup> the Ministry of Environment adopted the Concept Note outlining the scope of exemptions from Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) regulations. This situation threatens the proper implementation of the EU's horizontal legislation on the environment, particularly its EIA and SEA directives, as well as World Bank Environmental and Social Framework requirements. Moreover, the EU's Ukraine Facility Regulation ensures that funding for climate, environmental, and green transition measures, including biodiversity, accounts for at least 20 per cent of the overall proposed Investment Framework's budget.

### Recommendations

Improvement of municipalities' access to decision-making and financial resources, as well as inclusive and meaningful civil society engagement within reconstruction, can be addressed through the World Bank's financing instruments, particularly the SURGE Program-for-Results (PforR):

- **Enhance local government participation:** The municipalities should have the ability to influence investment priorities that directly affect their communities. Currently, the equal participation of local governments in the reform of public investment management is neither systematic nor sustainable.
- **Facilitate direct donor engagement:** Create mechanisms that allow municipalities to engage directly with international donors, bypassing bureaucratic hurdles that currently limit access to funding. This is important for Ukraine Facility implementation and future initiatives.
- **Improve strategic selection process:** The national strategic projects pipeline selection process is in its pilot phase, and the proper methodology is still to be developed. Yet, it is clear that the approach must change (in project selection, prioritisation, engagement in Strategic Investment Council or similar, etc.), and thus, technical assistance is necessary.
- **Foster continuous multi-stakeholder dialogue:** Maintain ongoing communication between national authorities, local governments, NGOs, and other stakeholders to ensure community voices are heard in recovery planning and implementation.
- **Coordination of donors on standards:** To ensure the transparency and traceability of all public investment projects in Ukraine, the statistical classification of economic activities in the European Community (*Nomenclature statistique des activités économiques dans la Communauté européenne*, NACE)<sup>18</sup> of the EU's classification of business activities should be adopted in Ukraine and used by all international partners.
- **Incorporate sustainability into PIM targets and goals:** Relying solely on current national environmental legislation is insufficient. This is particularly true regarding the proper implementation of the EU's horizontal environmental legislation, especially the EIA and SEA directives. Additionally, alignment with Ukraine Facility earmarking should be established.

<sup>17</sup> Ecoclub, [Position of civil society organizations on the possible narrowing of EIA and SEA in Ukraine – Ecoclub Rivne is an environmental NGO](#), Ecoclub, 23 September 2024.

<sup>18</sup> EUROSTAT, [Glossary: Statistical classification of economic activities in the European Community \(NACE\)](#), EUROSTAT, accessed 15 October 2024.