**Overview and Frequently Asked Questions (FAQ)**

**Multi-Donor Trust Fund (MDTF) for Co-financing of the Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine Project**

**(TF073829/TF073828)**

*July 2022*

## **Overall Summary and Context**

* **Russia’s invasion of Ukraine on February 24, 2022 is having devastating economic, social and poverty consequences**. The Government of Ukraine (GoU) continues to play a crucial role in providing services to its people, making priority social payments, including pensions, as well as taking crisis management actions to prevent a deeper humanitarian and social impact during wartime.
* The Government and the Ukrainian people are demonstrating extraordinary resilience, but **the need for additional financial support to continue to deliver basic human services—including medical care, social protection and civil servant salaries—is urgent.**
* On June 7, 2022, the World Bank Board of Executive Directors approved the **“Public Expenditures for Administrative Capacity Endurance” (PEACE) in Ukraine project (P178946)**,which supports GOU to sustain its administrative and service delivery capacity to exercise core government functions at the national and regional levels and provide education services during the war.
* Ukraine’s development partners remain focused on providing additional grant financing to support the GoU. The World Bank established Multi-Donor Trust Funds (TF073829 and TF073828) to co-finance the PEACE project – a **rapid, targeted and secure mechanism** to deliver this
* **Rapid: Donor grant funds will directly and quickly support Ukraine’s budget**. The MDTFs simplify the process for Ukraine of receiving funds by channeling multiple donors’ support under the PEACE project’s established operational arrangements – reducing transaction costs.
* **Targeted: The funds will support only eligible budgetary expenditures** under the project.
* **Secure: The World Bank manages the flow of funds and supervises the grants from these MDTFs under the stringent requirements of World Bank operations**, ensuring financial security of the funds.
* **Current Status**:
* Administration Agreements (AA) have been signed with USAID (US) and SECO (Switzerland).
* To date, USD 1.3 billion has been disbursed to GoU through the PEACE IPF.

## **Operating Model**

### **Objective**

**The objective of the Multi-Donor Trust Fund (MDTF) is to co-finance the Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine project (P178946), through Recipient-executed trust fund (RETF) grants.** The PEACE in Ukraine project is an emergency operation focused on supporting the Government to maintain core government functions by financing eligible government staff salaries in non-security sectors and schools’ staff during March-November 2022.

* **PEACE IPF overall project documentation**: <https://projects.worldbank.org/en/projects-operations/document-detail/P178946?type=projects>
* **Grant Agreement signed with GoU** (June 29): <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099845006292218072/p17894606066740da0bbe7027b4eb89ce1a>

### **Operating and Financing Model, First Grant, and Key Dates**

**The MDTF is processing Administration Agreements (AAs) for donor contributions.** The MDTF is held and operated in US dollars (USD). Under the PEACE project, the MDTF commits funds by RETF grant to Ukraine. The World Bank and Ukraine have signed a Grant Agreement under the PEACE project, and the MDTF has now disbursed a total of USD 1.3 billion to Ukraine. The Grant Agreement follows the terms of the PEACE project (P178946) and commitments to MDTF donors. Further grants will be processed on a rolling basis, based on new donor contributions and Ukraine’s preference for consolidating grants efficiently to reduce transaction costs, with grants made in line with the operation’s monthly disbursement schedule – subject to the availability of funds in the MDTF and the Bank’s verification of sufficient eligible expenses against which to disburse.

### **Process Flow for Donor Contributions: from Pledge to Call of Funds (COF)**

***Key steps***: pledge, contribution/AA, and call of funds (COF)

* **Pledge**: A pledge is a statement by a Donor Government of its intention to contribute to the MDTF.
* **Contribution / Administration Agreement (AA):** A pledge becomes a contribution on signing of an AA, which sets the terms under which the World Bank will manage the donors’ funds.
  + The MDTF draws on the Bank’s standard AA template, which is used across the entire IBRD/IDA portfolio and applies to all donors.
  + The AA for this MDTF can be structured around a one-time Call of Funds (COF), but multiple tranches can also be developed in the transfer schedule, as needed.
  + The AA for this MDTF includes the modified Cost Recovery (CR) for this MDTF (see below).
* **Call of Funds (COF):** Upon signed AA, the Bank submits the COF, which includes a cover letter, invoice, and instructions for making payment, and follows the transfer schedule set out in the AA.
* **Investment income:** As per the AA, “the Bank shall invest and reinvest the funds deposited in the Trust Fund pending their disbursement… The Bank shall credit all income from such investment to the Trust Fund to be used for the same purposes as the Contributions.” If there are specific issues for some donors, additional options can be discussed.
* **Timelines**: Generally, it can take as little as 1-2 weeks from Pledge to Call-of-Funds, depending on donor timelines and approval processes.

### **Cost Recovery on Donor Contributions**

Reflecting on the scale of support that is being provided and the exceptional circumstances, World Bank Management has agreed to a modified Cost Recovery (CR) fee structure on grant contributions from development partners to fast-disbursing trust funds (TFs) for Ukraine.

As a result, contributions to the MDTF for Co-financing of the Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine Project (TF073829) are subject to a 1% fee – rather than the falling sliding scale for RETFs, based on overall trust fund volume, starting at 5%.

Additionally, World Bank management has agreed to waive the CR fees on the portion of grant contributions exceeding – in the aggregate, across such trust funds for Ukraine – US$500 million from each development partner to fast-disbursing trust funds during the 18-month period from March 1, 2022 to August 31, 2023. TF073828 was established with a 0% fee for donors meeting this threshold.

This modified CR framework noted is currently applicable to the MDTFs for co-financing (i) the Financing of Recovery from Economic Emergency (FREE) Ukraine Development Policy Operation (P178794) and (ii) the Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine project (P178946).

### **Process Flow for Grants to Ukraine: Flow of Funds from the MDTF to the Government**

***Key steps***: Grant Agreement, transfer/disbursement to the government (including verifications).

As the MDTF is a co-financing mechanism, all funds committed and disbursed from the MDTF follow the same procedures as the World Bank’s support through the PEACE project (P178946).

* **Grant Agreement (GA)**: The RETF/co-financing Grant Agreement is between the World Bank and Ukraine and establishes the requirements and operational procedures for funds to be committed and disbursed to Ukraine from the MDTF, in line with the PEACE project. GAs are prepared based on fund availability in the MDTF and World Bank-GoU understanding of sufficient eligible expenditures under the project. [Link to Grant Agreement (29-June-2022)](https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099845006292218072/p17894606066740da0bbe7027b4eb89ce1a)
* **Transfer / Disbursement to Ukraine**: Upon execution of the GA, disbursements occur on the basis of withdrawal applications submitted by MoF. The World Bank reviews withdrawal applications, as well as the supporting documentation of the monthly report on actual incurred eligible expenditures for the past month, reconciled to State Treasury records and verified by the World Bank.
* **Timelines**: The MDTF processes grants on a rolling basis, based on fund availability in the MDTF and World Bank-GoU understanding of sufficient eligible expenditures under the project. The World Bank team works closely with Ukraine to consolidate each grant and tranche of funding as optimally and efficiently as possible, based on the country’s operational needs and realities.

### **What is the Basis for Disbursement from the MDTF to Ukraine?**

As the MDTF is a co-financing instrument for the PEACE project, RETF grants from the MDTF follow the same operational procedures as the PEACE project (e.g., fiduciary, M&E, etc.). These are captured in the Grant Agreement signed between the Bank and Ukraine.

The PEACE project is an Investment Project Financing instrument, which means that the Bank can only finance (and therefore only considers including) verifiable expenditures. The PEACE IPF finances salaries of government employees in non-security sectors and school employees.

The project is implemented based on a Project Operational Manual (POM), which is adopted by the MoF before project effectiveness. The POM lays out the project’s overall operating, fiduciary, verification protocols, decision-making procedures, eligibility criteria for non-security government employees of the central and regional governments and school employees, and results monitoring arrangements.

Disbursements will occur on the basis of withdrawal applications submitted by the MoF. Withdrawal applications would be supported by the monthly report on actual incurred eligible expenditures for the past month, reconciled to State Treasury records and verified by the World Bank. According to the Grant Agreement with Ukraine ‘No withdrawal shall be made until and unless the Recipient has furnished evidence satisfactory to the Bank in accordance with the verification protocols set forth in the POM, that the Salaries for Eligible Employees have been paid’.

## **Risk Management**

### **Financial Management Measures**

The Bank will “take all appropriate measures to prevent corrupt, fraudulent, collusive, coercive and obstructive practices in connection with the use of the Trust Fund funds, and include provisions in its agreements with Recipients to give full effect to the relevant Bank guidelines on fraud and corruption.” (AA, Annex 2, Para 4).

### **How does the Bank ensure MDTF funds will not be diverted to military purposes?**

The Bank does not support military expenditures. This is captured in both “negative” and “positive” approaches through our Bank instruments.

* For Development Policy Financing (DPF), the Bank explicitly excludes expenditures for “goods intended for a military or paramilitary purpose” under our [General Conditions for IBRD Financing](https://ppfdocuments.azureedge.net/e86b011b-f05d-494f-af33-d3f822761189.pdf). This is by nature, as DPFs provide budget support, not linked to a specific expenditure, so it is critical to have this “negative” list-type approach in DPFs.
* For Investment Policy Financing (IPF), as in this case of the PEACE IPF and MDTF, the Bank supports specific expenditures explicitly in a “positive” list. The positive list for this MDTF co-financing the Project is for: “(a) payment of salaries of eligible employees; (b) provision of audits; and (c) supporting future expansion of the Project, including, inter alia, through financing of: (i) pensions, (iv) utility payments of public sector, (v) social assistance payments, (vi) sub-grants for the benefit of internally displaced persons, and (vii) operating expenses of selected hospitals.” – none of which will include military expenses. Their non-inclusion, as well as the Bank’s clear approach in not supporting military expenditures, provide clear assurance that military expenditures are not included in this project or the MDTF’s support. In the [various project documents](https://projects.worldbank.org/en/projects-operations/document-detail/P178946?type=projects), including the Project Appraisal Document (PAD) and the [Grant Agreement supporting this project (June 29, 2022)](https://documents1.worldbank.org/curated/en/099845006292218072/pdf/P17894606066740da0bbe7027b4eb89ce1a.pdf), one can review the “positive” eligible expenditures and the definitions that explicitly exclude military expenditures (the “negative” aspect):
  + **PAD**: Throughout the PAD, we emphasize: (i) Confirmation that only (a) payment of salaries of eligible employees and (b) provision of audits are included under the project (pg. 2 – datasheet; para 26); (ii) Clear exclusion of salaries of “personnel who joined the military or territorial defense units as of March 2022” (para 22); (iii) “The risk that the project will fund personnel who is enlisted into military or territorial defense units is mitigated through the government personnel and payroll control systems - the government accounts for staff who joined military or territorial defense units, as they keep their average salary over previous period rather than regular salaries and are separately indicated in the payroll/personnel record. The government agencies will exclude this staff and the MoF will verify that the reports from government agencies, retained for audit, will not include the government and school employees who joined military or territorial defense units.” (para 70), and (iv) The project’s clear focus on analysis and support of the non-military budget (para 4, table 2, table 3, etc.)
  + **Grant Agreement**: (i) “Positive” approach of the only expenditures that can be funded (Schedule 1); (ii) Definitions that make clear that military expenditures are not eligible for support under this project or grant (paras 5, 13-14, of Appendix, Section 1. Definitions). (iii) 5. “Eligible Employees” means civil servants and other employees of governmental bodies; School Employees (all as defined in the POM) in non-security sectors who meet the eligibility criteria set forth in the Project Operational Manual. (iv) 13. “Salaries” the salaries of Eligible Employees, excluding inter alia those in the defense, military and security sector as set forth in the POM. (v) 14. “School Employees” means pedagogical staff working in institutions providing general secondary education; and excluding all employees working in military schools and schools with enhanced military and physical training, as further detailed in the POM.

### **What would happen in the case of unconstitutional change of government?**

Managing the risks related to unconstitutional change of government is a critical priority for the Bank across all its financing modalities to Ukraine. The MDTF, as a co-financing instrument, will utilize the same operational procedures as the PEACE IPF. The Grant Agreement between the Bank and the constitutional government commits funds to the Ministry of Finance, under the terms of the IPF, significantly reducing risk of diversion.

In case of an unconstitutional change of government, the Bank would not make further commitments from the MDTF and can halt disbursement of funds until further consultations have taken place in accordance with the Bank’s applicable policies and terms.

## **Results Framework (RF)**

### **What is the RF for this MDTF?**

As noted above, this MDTF’s objective is to co-finance the Public Expenditures for Administrative Capacity Endurance (PEACE) in Ukraine project, through Recipient-executed trust fund (RETF) grants. The MDTF’s Results Framework (RF) mirrors that of the PEACE project. The Results Framework includes sex-disaggregated indicators that note the number of female civil servants and female school employees who receive their income.

The RF will be included on the Development Partner Center (DPC) website, in line with Annex 1, Para 5 of the AA.

Additionally, as this is a co-financing MDTF, the PEACE IPF RF and current reporting can be found in the project’s Implementation Status & Results Report (ISR): [Link to the July 6, 2022 ISR (see Annex 1)](https://documents1.worldbank.org/curated/en/099640107062237847/pdf/P1789460384d610fe097d20316facf1ee32.pdf)

### **How will results be reported?**

Regarding the MDTF, the Bank shall provide the Donors with annual written progress reports by December 15. The progress reports shall be provided with reference to the Results Framework. Within six (6) months of the End Disbursement Date, the Bank shall provide the Donors with a final narrative progress report for the Trust Fund. (AA, Annex 2, Para 4).

* **PEACE IPF project Implementation Status and Results Reports (ISRs):** ISRs from the PEACE IPF are prepared on a 6-month basis, following the Bank’s standard ISR template, and are shared publicly on the project page: [Link to the July 6, 2022 ISR (see Annex 1)](https://documents1.worldbank.org/curated/en/099640107062237847/pdf/P1789460384d610fe097d20316facf1ee32.pdf)
* **Grant-level Reporting:** “The Bank shall make available to the Donors copies of all financial statements and auditors' reports received by the Bank from Recipients pursuant to any Grant Agreements in accordance with the Bank's Access to Information Policy.” (AA, Annex 2, Para 3) For the PEACE IPF, this reporting includes a monthly verification report and audit **-** At the end of the project, the Bank will prepare an audit of financial statements and tests to verify the eligibility of project expenditures, including review of controls and procedures.
* **Trustee-level Narrative Reporting:** In line with the current AA, the Bank shall provide the Donors with annual written progress reports, as well as a final narrative progress report.
* **Trustee-level Financial Reporting** Also in line with the current AA, the Bank will provide the noted financial reports (such as the financial information relating to receipts, disbursements and fund balance via the Development Partner Center (DPC) platform).

## **Governance and other aspects of the AA**

### **What is this MDTF’s Governance model?**

As this is a co-financing MDTF, which will provide RETF co-financing grants through the PEACE project, the MDTF does not have standalone governance arrangements. The scope of the MDTF is limited to providing co-financing to the PEACE project, and all available funds will be committed to this purpose. Regular updates to donors will be provided as part of project supervision, as well as progress, accounting, and financial reporting, as set out in the AA. This includes progress reporting, final narrative report and financial information relating to receipts, disbursements and fund balance via the World Bank’s Development Partner Center (DPC) platform.

### **Other aspects of the AA**

**World Bank’s AA templates** are negotiated and agreed with our development partners on a multi-year basis. Therefore, the Bank is not able to accommodate most proposed changes in individual agreements. The AA template was discussed and agreed to in 2016 with a group of major donors to IBRD/IDA trust funds in the context of the Consultative Group on Operational Principles (CGOP).

## **Visibility**

Where appropriate to do so, the Bank will acknowledge, the Donors' contributions in references made by the Bank with respect to the Trust Fund in publications, press releases or other similar written materials. (AA, Annex 2, Para 6)

## **Useful Documents**

[A GUIDE FOR DEVELOPMENT PARTNERS: Partnering with the World Bank through Trust Funds and Umbrella 2.0 Programs (November 2021).](https://thedocs.worldbank.org/en/doc/448b37c5ab031f2645de278e5ef39c24-0060072021/original/DP-Guide-2021-FINAL.pdf)

Donor Partner Center (DPC): <https://thedocs.worldbank.org/en/doc/813001586360657813-0060022020/render/DPCFAQs.pdf>