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ENVIRONMENTALLY SOUND TOURISM AND BUSINESS ACTION PLAN for the CARPATHIAN REGION OF UKRAINE

Team Members
Zbigniew Bochniarz
Paul Ferraro
Rodney Fink
Eugene Gibson
Ashley Goldhor-Wilcock
Robyn Goodkind
Thomas Gray
Annett Pagan
Arthur Pedersen
Bertram Spector
Andrei Verlan
Svetlana Volskaya-Winbourne

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Winrock International Environmental Alliance

Center for Policy Negotiation

Development Assistance Corporation

The Futures Group

Institute for International Research, Inc.

Iowa State University Center for Agricultural and Rural Development Resource and Environmental Policy Division

The Johns Hopkins University

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Management Systems International

New York University Institute for Economic Analysis

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Tropical Research & Development, Inc.

Tufts University Program for Study of Sustainable Change and Development

Tuskegee University

University of Maryland International Institute for Ecological Economics

University of Rhode Island

Winrock International Institute for Agricultural Development

Yale University School of Forestry and Environmental Studies

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1611 North Kent Street, Suite 600, Arlington VA 22209 - USA
Telephone (703) 525-9430 FAX (703) 516-0481

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TABLE OF ACRONYMS

CR	Carpathian Region
ESB	Environmentally Sound Business
EPAT	Environmental and Natural Resources Policy and Training (project)
MEPNS	Ministry of Environmental Protection and Nuclear Safety
NAR	Needs Assessment Report
NIS	Newly Independent States
NGO	Non-Governmental Organization
USAID	United States Agency for International Development
VAT	Value Added Tax

PREFACE

This action plan is prepared by the Environmental and Natural Resources Policy and Training Project (EPAT), managed by the United States Agency for International Development (USAID) Global Bureau Center for the Environment in Washington, D.C. This activity, Environmentally Sound Tourism and Business Development for the Carpathian Region (CR) of Ukraine, is implemented through a buy-in contract from the USAID/Kyiv mission in Ukraine.

The objective of this activity (hereafter referred to as "project") is to provide Ukrainian stakeholders, donor agencies, and other parties interested in the economic development of Ukraine with practical information that could be used to develop and support environmentally sound enterprises in the four oblasts comprising the CR of Ukraine. The project focused exclusively on the sectors of tourism, wood processing, alternative energy, and agricultural production, with most project resources being dedicated to tourism. This action plan sets forth business opportunities and the actions considered important for their implementation.

To keep this action plan succinct and user-friendly, important complementary materials are attached as appendices. We stress that the action plan should be read in conjunction with these documents. They include a *Needs Assessment Report* (NAR) representing the collective research of more than 30 Ukrainian experts commissioned by this project to provide a situational assessment of business development in the CR. The first of two volumes of the NAR is attached; the second volume, a collection of individual reports by Ukrainian authors, is too large for inclusion but can be provided upon request. Also attached to this action plan is the *Tourism Strategy for the Ukraine Carpathians* (the Tourism Strategy), a comprehensive document produced from extensive research and fact-finding conducted by this project. Finally, a document on business planning and sources of financing for entrepreneurs in Western Ukraine is included that provides current information on lending programs sponsored by USAID and other agencies.

Many people contributed to this project in addition to the team members. We cannot name them all, but we wish to thank the Ukrainian experts and NAR authors, interpreters, translators, assistants, facilitators, and drivers who assisted us through some very difficult adventures. Special acknowledgment is owed to four individuals who worked with us throughout the course of the project to review and comment on findings, facilitate workshops, write reports, and provide invaluable input to the development of this action plan: Leonid Kravtsiv, Institute of Regional Studies, L'viv; Gennadiy Naumenko, Deputy Chairman of the State Committee for Tourism; Vyacheslav Oleshchenko, Presidential Administration; and Leonid Rudenko, Institute of Geography, Academy of Sciences.

Questions related to this action plan should be sent to:

Robyn Goodkind, Project Manager
Management Systems International
600 Water Street, S.W.
Washington, D.C. 20024
202-484-7170 (phone)
202-488-0754 (fax)
email: Rgoodkind@msi-inc.com

Lea Swanson, Director of Environmental Development
USAID/Kyiv
19 Nizhniy Val St.
254071 Kiev, Ukraine
380-44-462-5678 (phone)
380-44-462-5834 (fax)
email: LSwanson@USAID.gov

EXECUTIVE SUMMARY

The Carpathian Region of Ukraine offers residents and visitors a rich array of natural resources: clean air, clean water, healthy terrestrial and aquatic ecosystems, abundant forests, and scenic landscapes. Historically, these natural resources have formed the economic foundation of the CR through such sectors as tourism, forestry and wood processing, and agriculture and have defined as well that region's unique cultural personality and heritage. Clearly, their preservation is critical to the CR's social and economic well-being.

Despite Ukraine's abundant natural resources, the country's economy is weak due to a combination of political and social factors. As Ukraine struggles through its transition from a state-controlled society to a more free-market society, enterprises that once thrived under the Soviet system now search for ways to reinvent themselves in the private sector. Tourism is one example of an industry that has experienced the throes of Ukraine's transition since 1990. Inflation, high taxes, and a loss of spending power by the general population have negatively effected Ukraine's domestic and international tourism markets. In addition, the lingering image of the Chernobyl disaster has contributed to this trend.

On the positive side, however, recent studies indicate that the tourism sector has stabilized to some extent since 1995 with the enactment of a national tourism law and other initiatives to bolster the industry. If Ukrainian policymakers and business leaders continue to support initiatives aimed at strengthening the industry, the Carpathian Region will be a prime target for tourism development. The rich natural and cultural resources that have historically made the region attractive and interesting are still the region's key economic assets and are necessary ingredients for a healthy tourism sector.

USAID/Ukraine asked EPAT to identify environmentally sound tourism business opportunities in the Carpathian Region and, secondarily, business opportunities in the sectors of wood processing, agricultural production, and alternative energy. These sectors were chosen because of their high potential in the CR and their reliance on a sustainable natural resource base, addressing USAID's dual objectives of improving Ukraine's economic conditions through the development of the private sector and promoting environmental protection.

For the tourism study, we focused on all four oblasts of the Carpathian Region: L'vivska, Zakarpatska, Cernivetska, and Ivano-Frankivska; for the non-tourism sectors our study was limited to a much smaller triangle area defined at its points by the towns of Ivano-Frankivsk, Rahkiv, and Kosiv in the southern part of the CR. The input of dozens of Ukrainian specialists and stakeholders at the national, oblast, rayon, and municipal levels contributed to a highly effective participatory project process. The project team conducted numerous meetings and interviews throughout the CR and in Kyiv, commissioned nearly 30 studies by Ukrainian authors, and conducted stakeholder workshops in three CR sites. In addition, extensive resources were dedicated to assessing existing markets and the market potential for environmentally sound tourism in Ukraine. Findings and conclusions from this research are presented in the attached Tourism Strategy for the Ukraine Carpathians, Appendix A.

We discovered that the Ukrainian stakeholders are the best source of ideas for business development in their country. The business opportunities presented in Chapters 2 and 3 of this action plan are essentially their ideas with our added expertise on such issues as demand, competition, required resources, environmental implications, constraints, and key actions needed

for implementation. In addition, Ukrainian stakeholders were instrumental in helping us identify the highest priority policy and institutional actions that will contribute to a more enabling climate for business development generally in the CR and, in particular, for the business opportunities presented in this action plan. They include:

- Reform tax policies so that businesses can retain more earnings and increase investment potential;
- Improve the investment climate so that domestic and foreign investors will be willing to help fuel the economy; and
- Privatize property and reform land use laws so that businesses can obtain credit and access to valuable resources.

Other important policy and institutional recommendations concern anti-trust legislation, infrastructure improvements, land registers, export policies, lending laws, and enforcement of economic and environmental laws.

The business opportunities identified in this action plan are probably the most viable ideas for private business development in the targeted sectors because the Ukrainians demonstrated an interest in developing them and, in most cases, an existing expertise for their implementation exists. Moreover, we tried to encourage ideas that are not capital-intensive at the outset since private sector loans and foreign investors are both difficult to access. We encourage Ukrainian entrepreneurs to start small and medium-size businesses with their own savings or with family loans, as most such businesspeople throughout the world do. Nevertheless, we recognize that assistance outside such avenues is sometimes necessary and thus we provide information in Appendix D on financial resources for CR residents, some of which are donor-sponsored.

Business opportunities identified by Ukrainians for development include:

Tourism

◊ *Ukrainian Ground Operators.*
◊ *Small Two and Three Star Hotels and Ski Lodges*
◊ *Beds and Breakfasts*
◊ *Farm Tourism Facilities*
◊ *Artisan Studio Tours*

Wood Processing

◊ *Collection of Seeds for Reforestation*
◊ *Pressed Logs for Heating*
◊ *Consumer Wood Products*

Agricultural Production

◊ *Products of the Forest*
◊ *Products of Bees*
◊ *Fruit and Vegetable Processing Plants*
◊ *Agricultural Service Center*
◊ *Fish Farming*

Alternative Energy

◊ *Energy Consulting Firm*

Our objective, it bears repeating, was not only to identify good options for economic development for the CR, but to identify good options that are environmentally sound. Each opportunity presented in this action plan has the potential to harm the environment and each has the potential to help the environment. When assessing environmental impact, much depends on the planning and implementation processes of individual businesspeople. All of the business opportunities in this action plan ultimately will be more sustainable and more financially rewarding if they follow environmentally sound practices. While it is not possible for all businesses to be perfect in this respect, all businesses can implement such practices to some extent.

1.0 INTRODUCTION

1.1 GOALS

This action plan identifies ideas for small and medium-size environmentally sound private business development in the CR in the sectors of tourism, wood processing, alternative energy, and agricultural production, with the primary focus on tourism (see section 1.3 below).

We were given the task of developing an action plan for the people of Ukraine, first and foremost. Therefore, the ideas and recommendations presented in this document are not designed to be a package of actions for one entity to implement. This is not an action plan exclusively for a donor organization or for the Government of Ukraine, although we hope that it will offer such entities precise and meaningful information for improving the quality of life in Ukraine. Rather, it contains ideas and recommendations at many levels, some of which could be implemented by individuals; non-governmental organizations (NGOs); community organizations; research institutions; government bodies and policymakers at local, regional, and national levels; and donor agencies. The most obvious beneficiaries of this plan are the entrepreneurs and local-level investors living in the Carpathian Region, the individuals whom we view as having the greatest potential and motivation to develop these ideas.

Chapter 2 presents business opportunities and key actions in the sector of tourism. Chapter 3 presents business opportunities and key actions in the other project sectors. Chapter 4 discusses the highest priority enabling policy and institutional actions that would facilitate the development of the opportunities identified in Chapters 2 and 3, and summarizes numerous other actions that apply exclusively to tourism.

1.2 MOTIVATION

The CR of Ukraine is rich in natural resources. Its clean air, fresh water, abundant forests and ecosystems, and healthy meadows not only create a pristine environment for Carpathian residents and visitors, they are the region's key economic assets. They attract visitors, produce wood, provide food and mineral water, and contribute overall to good health

Clearly, the development of new business is critical to improving the quality of life in the CR, where economic conditions are poor. Yet development could threaten the natural resources that form the region's economic base. Negative effects can already be detected: deforestation that exacerbates landslips and floods; wood harvesting practices that compact the soil and make it harder to reforest; industrial pollutants that contaminate rivers. If development activities continue to negatively impact the environment, the long-term effects could create serious problems for the region. In the short-term, destruction of key resources could threaten the development of promising business sectors such as tourism, wood processing, and agricultural production.

For Ukraine, like for countries throughout the world, the challenge of sound development is complex. Because the CR is still relatively undeveloped and because Ukraine is still in the early stages of a market economy, there is great potential for developing businesses that not only contribute to the economy but that also contribute to solving environmental problems and to avoiding future ones. Such businesses, for our purposes, are called "environmentally sound businesses" or ESBs.

We were asked to identify ideas for business development in the CR that have the potential to be environmentally sound. Because there is no single definition for an ESB, one must consider the opportunities and constraints that entrepreneurs, communities, or countries face when trying to stimulate their economies. Ideally, an ESB would use renewable natural resources, such as trees and pastures, in ways that do not reduce the ability of the resources to generate future income. It would reduce the production of nonrecycled or non-reused wastes (including pollutants) to low levels and dispose of the wastes in a responsible manner; engage in energy conservation when practical; produce safe products and services; restore or mitigate environments damaged by its activities; inform the public of its negative environmental impacts; and frequently examine its production process in an effort to find ways to reduce negative environmental impacts. Realistically, most businesses in the world do not engage in all of these practices, yet many businesses successfully adopt a number of environmentally sound practices that contribute to the ESB objective and increase profits over the long term.

For Ukrainian entrepreneurs, who face daunting barriers to development, we cannot always expect the ideal. As a starting point, we can encourage the development of businesses that help the environment in some way (e.g., recycyling sawdust to produce energy) and we can help Ukrainian entrepreneurs recognize that there are high-potential businesses that directly depend on environmental protection (e.g., tourism activities). Moreover, with the assistance of donors and others interested in the sound development of the CR, stakeholders in the region can be educated on the connection between low-cost environmentally sound technologies (e.g., energy conservation measures) and economic growth.

Environmental impact is one of several criteria used to analyze the business opportunities in this plan. However, this project had neither the resources nor the time to conduct detailed environmental impact assessments of potential businesses. Each business opportunity presented includes a discussion on potential environmental implications but not all of the ideas presented in this action plan would necessarily be environmentally sound. All, however, have the potential to engage in environmentally sound activities -- some coming closer to the ideal than others. Before any business is established or any existing business changes its practices, an in-depth assessment should be conducted of its potential positive and negative environmental impact and how such impact factors into its cost-benefit analysis. Many donor and lending programs, in fact, require potential recipients to undertake some degree of environmental assessment as a condition for the provision of assistance.

1.3 APPROACH AND METHODOLOGY

The sectors of tourism, wood processing, alternative energy, and agricultural production were chosen for study for two key reasons: 1) USAID determined through its own reconnaissance efforts that these sectors were most applicable to the CR and 2) they lend themselves to the initiation of environmentally sound development more than some other industries. Most of the project's resources were dedicated to a study of the tourism sector, and this comprehensive analysis covered the following four oblasts of Ukraine's CR: L'vivska, Zakarpatska, Cernivetska, and Ivano-Frankivska. As noted in the Preface, a separate strategy on environmentally sound tourism[1] in the CR has been produced by this project and is attached as Appendix A. The Tourism Strategy

[1] The distinction between environmentally sound tourism and "eco-tourism" is worth noting. Environmentally sound tourism involves business activities that engage in ESB practices. Eco-tourism is a type of environmentally sound tourism that deals exclusively with nature-based activities, such as hiking through parks and rafting down rivers.

is a comprehensive document that contains valuable information for those interested in this sector, and we encourage the reader to reference it frequently while reading the action plan. It should be emphasized that this action plan's primary focus is tourism. A less comprehensive analysis was conducted of the other sectors and was confined to a much smaller area of the CR.

Consistent with USAID's reengineering initiative, we were also asked to design and conduct project activities in ways that would provide the greatest opportunity for Ukrainian stakeholders and partners to participate in project activities and goals. To this end, Ukrainians drove the process of identifying the opportunities and actions presented in this plan through participatory research, stakeholder workshops, and numerous meetings.

A project workplan was activated in January 1996, setting forth an 8-month schedule for implementation of activities and contract outcomes. Upon completion of an initial 3-month needs assessment phase[2], which involved more than 30 Ukrainian experts, four stakeholder workshops were conducted in Ukraine over the course of 5 weeks.

Two focus group workshops were held in Southwestern Ukraine. One was conducted in the Rahkiv rayon in the Zakarpatska oblast, with participants from that rayon; the other was conducted in Yaremche in the Ivano-Frankivska oblast, with participants from the rayons of Ivano-Frankivsk, Verhovina, Kolymia, and Kosiv. The focus group sessions brought together a total of 50 stakeholders in order to generate and evaluate ideas for business development in their rayons in all of the sectors under study, including tourism. Team experts in each sector, as well as experts in small business development and environmental protection, attended the focus group meetings to provide input. This team also toured existing enterprises and parks and protected areas, and talked with numerous business people and managers. Project studies of non-tourism sectors were restricted to this two-week exercise in this limited geographical area. In order to fully evaluate the potential of these sectors for the CR, we recommend that more analysis be conducted.

Focus group members generated a long list of business ideas for consideration. Using a set of criteria developed for this exercise,[3] the project team members facilitated the evaluation of all of the ideas and then reduced the list to several opportunities that showed the highest potential in the opinion of the participants. For non-tourism sectors, these ideas comprise the business opportunities in this plan. Tourism opportunities presented in this plan derived in part from the focus groups, with additional information from numerous sources. (See Appendix A).

Following the focus group sessions, a regional stakeholder workshop was held in Yaremche and included stakeholders from municipal, rayon, oblast, and national governments, as well as the private sector and NGOs to discuss tourism opportunities in addition to policy constraints and recommendations required for business development in general in the CR. A Kyiv-based workshop consisting mostly of national-level stakeholders was then held and produced

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[2] The Needs Assessment Report, Volumes I and II, contains the extensive research conducted during this phase. Volume I, attached to this action plan as Appendix B, summarizes Volume II, which consists of the individual reports written by mostly Ukrainian experts. Volume II is available upon request.

[3] Criteria used by focus group participants and project experts to evaluate potential business opportunities included an assessment of customer demand; resources required; regulatory and infrastructure constraints; and environmental impact.

recommendations for actions at the national level related primarily to tourism development. Findings from both workshops are incorporated into this plan.

Appendix C summarizes the agendas, participant lists, list of all opportunities identified in the two focus group workshops, and findings from all four workshops.

2.0 BUSINESS OPPORTUNITIES AND KEY ACTIONS FOR TOURISM

2.1 BUSINESS PLANNING

Before any of the business opportunities discussed in this chapter or in Chapter 3 can be implemented, two critical events must occur. First, an interested entrepreneur(s) must take the initiative to start the business and, second, that entrepreneur must conduct an adequate business plan. A thorough business plan will evaluate such factors as supply, demand, market, environmental impact, and required resources. It will also provide critical information on actions necessary for start-up.[4]

Appendix D, Business Planning and Financial Resources, consists of two complementary and essential pieces. The first is an explanation of the general questions that entrepreneurs in an emerging market economy should ask, whether starting a new business or expanding an existing one. The second piece is a reference for CR entrepreneurs on sources of financing in Ukraine.

It should be emphasized that, while more foreign investment in Ukraine could help stimulate the economy, most small and medium-size enterprises throughout the world, regardless of economic conditions and other major constraints, are funded by the entrepreneurs themselves -- either through family financing or their own savings. In general, we advise Ukrainian developers to rely more on their own abilities to raise capital than on the intervention of foreign donors or investors. Nevertheless, as Appendix D indicates, programs (some of which are donor-funded) operating in Ukraine are available to assist entrpreneurs who qualify and we encourage Ukrainians to seek out such assistance when possible.

2.2 ENVIRONMENTAL IMPLICATIONS OF TOURISM DEVELOPMENT

For each opportunity presented below, information related to the environmental implications of that idea is provided. For some ideas, more information is available than for others. In general, tourism development in the CR will probably not have significant direct environmental impacts in the short and medium term, with the possible exception of surface and ground water contamination from human waste. Such impacts could be mitigated if communities plan for appropriate treatment and disposal, and then allocate or generate adequate funds to implement their plans. Localized impacts from infrastructure construction and from high tourist loads along nature routes may also be observed, but tourism development is unlikely to impact the larger regional ecological processes in a direct and significant way.

Tourism development in the CR does, however, have the potential to cause longer-term negative impacts. Surface and ground water quality are likely to be the most easily observable direct impacts from unfettered tourism development, but there are also two important potential indirect impacts from tourism development: 1) poorly planned tourism development can negatively impact the aesthetic quality of the landscape, which will in turn decrease the income generating potential of tourism businesses; and 2) improvements in such basic infrastructure as roads and communications, which are critical to tourism development, often encourage immigration and the

[4] During the course of this project, a World Bank Global Environment Facility 10-day workshop on sustainable tourism held outside Uzhgorod in Western Ukraine concluded that entrepreneurs and potential entrepreneurs in the tourism sector should focus on small-scale tourism enterprises and require, most importantly, assistance in the business start-up and planning process.

development of environmentally *unsound* businesses. Thus, unless there are the means through which communities can, and will, control the processes of development in their region, the CR may experience greater pressures on its environmental assets as a result of tourism development.

Tourism business development could have a net positive impact on the environment if steps to mitigate potential negative environmental impacts are taken. The success of tourism development in the CR is closely linked to the region's environmental quality. Tourists come to the CR to take advantage of its relatively pristine natural environment. Decreases in the quality of the region's natural resources could hinder the ability of tourism businesses to attract customers. Thus, a healthy natural environment is a critical input for tourism businesses in the CR. To ensure the supply of this input, tourism and tourism related businesses, and local, regional, and national governments have an incentive to ensure the protection of the CR environment. However, such recipients of tourism's benefits cannot necessarily ensure a healthy environment because they do not ultimately control the resources that need to be protected -- even if their own businesses employ environmentally sound practices. They must therefore try to influence the behavior of others who are responsible for controlling, or managing, the environmental assets on which they depend. To have such an influence, tourism beneficiaries typically must organize to lobby their government and educate their neighbors. protection.

2.3 THE CURRENT TOURISM PICTURE

During the course of this project, the tourism industry in the CR of Ukraine was examined in detail. Studies were commissioned or analyzed to determine existing attractions and facilities, income generated by tourism activities, existing and potential supply and demand, and comparative and competitive markets in neighboring countries. In addition, dozens of interested individuals and organizations were interviewed, including tourism agents and operators, government representatives, and tourists. Many facilities and attractions in all four oblasts were visited. The Strategy provides extensive information on Ukraine's current tourism framework, including institutions, organizations, plans, laws, policies, and trends, in addition to a comprehensive presentation on market conditions, infrastructure, constraints, and recommendations for action.

In recent years, a combination of factors has resulted in considerable reduction of the Ukrainian tourism industry. Ukraine has suffered under the weight of an economic crisis of inflation, high taxes, and a loss of spending power by the general population. Economic conditions continue to negatively effect the state of Ukraine's tourism infrastructure and the image of Chernobyl persists internationally.

The period of 1990-1993 was especially severe for Ukrainian tourism. The volume of domestic tourist activities decreased by a factor of four, and informal domestic tourism "excursions" decreased by a factor of 23. The number of foreign tourists visiting Ukraine declined by 80%. Only 120,000 foreign tourist arrivals were reported in 1992.

The economic crisis has reduced the number of Ukrainians taking vacations. Although many employers continue to send workers to resorts and sanitariums as part of their benefits, in the last few years Carpathian tourism rates have dropped to record lows. Today, because prices are cheaper and services and infrastructure better, those Ukrainians with sufficient funds now prefer to travel internationally. At Kyiv trade fairs travel representatives sell packages to Cyprus, Turkey, and Western Europe; few are sold to Ukraine destinations. Of all the Ukrainian oblasts, only

L'vivska has tourism figures showing that the number of foreign tourists exceeds that of Ukrainian tourists going abroad.

However, a new stage in Ukrainian tourism began to evolve in 1995 with enactment of the Ukrainian Tourism Law (see Appendix A). Carpathian government and business leaders have begun to view tourism as a major vehicle for economic growth. It is believed that if organized correctly, tourism could help counterbalance existing and more extractive natural resource-based industries such as logging.

Although official and unofficial opinions vary about recent trends showing a recovery of the tourism industry, in general the past two years have brought some stabilization to the industry. In 1995, official statistics show an improvement, with the State Committee for Tourism reporting the arrival of 1,875,000 foreign tourists, 1.6 times more than in 1994.

2.4 MARKET OPPORTUNITIES AND DEMAND

The current Ukrainian tourism market can be broken down into four areas, not including business travel:

1. Domestic market: Ukrainian tourists who use the sites for vacations and recreational activities.

2. General international touring market: individual tourists and tour groups interested in Ukraine and Ukrainian culture but coming to the area without a specific interest in a defined activity or subject matter. These tourists tend to be more interested in general sightseeing, shopping and cultural attractions such as museums or historical sites.

3. Diaspora tourism market: tourists having Ukrainian extraction wishing to return to their original homeland.

4. International specialty markets, of which nature tourism is a subset: tourists coming to the region to pursue a particular interest or engage in a specific activity. The effect of this trend, of wishing to experience other cultures and to pursue specific interests, has led travelers farther afield from the traditional tourist resorts. It has produced an increased segmentation of the market and a growing demand for unique and educational experiences. These markets encompass a wide range of activities and are labeled under several categories. Responding to the demand, travel companies now organize specialty tours to cater to every taste. Interest in the environment and in outdoor pursuits has spurred a number of growing market segments.

Potential for Ukrainian tourism exists in all four market areas and they should be developed concurrently. There is immediate potential in developing domestic Carpathian tourism, particularly ski tourism, for middle and upper-middle class Ukrainians. Because of the economic crisis, this market is now limited to a relatively small segment of the overall national market. However, by developing this market and providing the kind of services and infrastructure that Ukrainians are now demanding, the stage can be set for future domestic tourism expansion. As the economic crisis abates, domestic tourism will provide Ukraine with its greatest long term potential.

Diaspora tourism has potential for the short-term, but attracts older clients with Ukrainian roots. Based on the data, trends in diaspora tourism appear to be slowing, and will probably continue to slow, as the large immigrant populations in the West ages. Future tourism efforts should include

addressing the needs of this market; however, putting scare tourism resources into diaspora tourism should be of a lower priority than the development of other markets.

The general international tour market has good potential, particularly if a tour connection can be developed between Poland and L'viv. For this market, the idea of the Carpathians as one part of a complex multinational tour has the best chance of success. At present, there is sufficient infrastructure in the region to offer this kind of tour. Tourism related to cultural attractions is rated as one of the highest Carpathian tourism opportunities. (See marketing information in the Tourism Strategy.)

For overall development of Carpathian tourism, the international specialty markets should also have a high priority. Opportunities exist for snow skiing for the Russian and Polish markets and walking and nature routes for the Poles, Czechs and, in the future, for Western European tourists. In addition, the development of these routes holds the possibility of establishing links to farm tourism and several craft businesses. In addition, routes can be tied to several of the region's existing hotels, avoiding the cost for infrastructure improvement.

In 1995, the majority of Ukraine's foreign tourists came from Russia, the other countries of the Newly Independent States, Poland, Hungary, the US, and Germany. Compared to its competitors in Eastern Europe, Ukraine's tourism industry is weak. Several factors account for its poor position in the region, including scant marketing efforts, poor infrastructure, restrictive policies (e.g., taxation, privatization, and investment), and overall poor economic conditions. (See Tourism Strategy Chapter 3.2 for a comprehensive discussion on comparative market advantages and proposed recommendations). Current revenue from tourism activities in the CR are difficult to estimate due to insufficient statistical collection mechanisms and hidden income. However, project studies indicate that, with increased marketing and infrastructure developments over a ten year period, the tourism industry in Ukraine could eventually generate up to 154 million dollars worth of economic activity annually, using an economic multiplier (see Tourism Strategy Chapter 3.1).

Development of Ukraine's future tourism industry, however, will be difficult. Hopefully, resources devoted to alternative lines of economic activity (e.g., manufacturing and agriculture) will improve the economy so that tourism opportunities will be easier to start up. Tourism will probably not lead the economic recovery, although it could be an impressive complement to economic growth in other areas. In addition, considerable potential exists for improved economic linkages between tourism and other sectors. After an adequate data collection system is in place, further study and planning should be devoted to examining such linkages. Examples of related industries include ski lift manufacturing, repair, and maintenance; farm tours linked with food production; vehicle rental and repair; and energy production.

2.5 OVERVIEW OF TOURISM OPPORTUNITIES

Stakeholders from the three regional workshops discussed in Chapter 1 initially generated most of the business opportunities presented below. The project team's primary tourism expert applied the voluminous body of data collected during his research to provide the analysis for each opportunity presented below. The opportunities are specific examples of the types of businesses that could be sustainable in the CR tourism sector. Chapter 2.16 of the Tourism Strategy, which presents more broad categories of tourism development activities for the CR, should be read in conjunction with this chapter of the action plan.

Market analysis and existing policy issues indicate that the high potential tourism opportunities for the Western and Central European markets center around the development of regional walking and cultural tours, smaller two and three star hotels, and farm tourism that offers camping areas. For Ukrainian domestic tourism and the Russian-NIS markets, high potential tourism opportunities exist for ski vacations, small ski lodges, two-star hotels, health spas, and bed and breakfast facilities. Geographical areas of highest potential for featuring such opportunities include the L'viv and Uzhgorod areas, the area around the town of Kosiv, and the areas of the Carpathian National Park and Carpathian Biosphere Reserve. For a complete presentation of the areas in the CR that present high attraction potential, see Appendix A, Chapter 2.14.

While the opportunities presented below represent our best projections, it bears repeating that, absent the enabling policy actions also presented in this plan, as well as the additional recommendations for action presented in the Tourism Strategy, even the business opportunities with greatest potential will struggle. This point is relevant as well for the non-tourism opportunities presented in Chapter 3.

Such broadly applicable actions as those presented in Chapter 4 are usually not discussed in relation to each opportunity. However, a bold asterisk (*) in the context of a particular opportunity indicates the presence of a key action related to implementation of that opportunity.

2.6 TOURISM OPPORTUNITIES

1. Ukrainian Ground Operators

Business description

Ground operators are host country travel firms used by foreign tour operators to supply logistical support and make in-country travel arrangements. In other countries, firms have their own equipment and transport and are well-connected to international travel markets. While the current situation shows a lack of tourism demand generally, developing such businesses is essential to development of the industry overall. Currently, few operators offer walking and cultural tours, although demand exists.

In the CR, walking and cultural tours have been identified as having tourism potential. However, few Ukrainian ground operators offer such tours. Only three operators were located in Kyiv and none in the region. Regional tour operators exist but these firms specialize in shopping tours to neighboring countries, although several are interested in expanding their businesses to include cultural and walking activities. However, while they have experience working with groups of people and arranging transport, shop tour operators have no experience with walking and cultural tours nor do they have the equipment necessary for outfitting. European and North American walking tour operators prefer to take minimum equipment and depend on ground operators to provide the bulk of their gear. Currently, camping equipment, such as tents, are scarce in the Ukraine and new equipment that can be found tends to be expensive and of poor quality. Cheaper Russian equipment is sometimes available.

Customer demand

Walking and cultural tours have future potential for foreign tourists coming from Poland, the Czech Republic, and several western countries. (See Appendix A). There is also potential from the growing American and Canadian nature or eco-tourism markets.

L'viv and Uzhgorod are logical sites for such businesses, both being important regional transportation and communication hubs. L'viv is an historical city with many cultural and historical attractions. Uzhgorod while not having the same level of attractions, has a vibrant city life with cafes and restaurants. Both cities have adequate accommodations.

With existing infrastructure, foreign tour operators would find it easiest developing and maintaining ties to L'viv and Uzhgorod-based businesses. Statistics show that the majority of foreign tourists to the region come through L'viv and secondly into Zakarpatska through Uzhgorod. In addition, both cities could be used as integral components for multi-country tours. Tours having the greatest short-term potential combine Poland, L'viv, and the Ukraine Carpathians. L'viv is close enough to scenic mountain areas, including the Kosiv area, to permit several days of walking and cultural experiences. A suggested tour includes L'viv and several days in the mountains. Krakow, Poland, could be included on the tour. The routes from Uzhgorod to Sinivir National Park and from Uzhgorod to the Carpathian National Park and Hoverla mountain also have good potential. The latter is currently a principal hike for visitors and residents.

Competition
Competition for the walking market comes mostly from the neighboring countries of Poland and Slovakia. Both these countries have better infrastructure and accessibility, less restrictive visa requirements, and a more progressive tax structure that encourages tourism development. In addition, there is developed infrastructure and better services in their national parks including a system of trails with detailed maps. Cultural tours face competition principally from the historic city of Krakow.

Environmental Implications
Negative impact would be primarily localized, resulting from wear and tear of trails and the related effects of erosion, degradation of plant species, and diminished aesthetic value.

Ensuring that operators follow accepted environmental practices when visiting natural and cultural sites rests with the managers of protected areas and cultural sites. While operators have a responsibility for environmental protection, experience has shown that at the start of business operations, foreign clients are more environmentally aware than the operators. This situation typically changes as operators come to realize that it is in their interests to conform with management and the demands of their clients.

Supplying park staff and tour operators with information on environmentally sound techniques for managing tourists is another activity that could increase sensitivity to environmental impact. Much research has been carried out on techniques to mitigate the environmental problems connected to outdoor recreation. These techniques and research publications should be readily available to protected area specialists. (See the Tourism Strategy for more information)

***Key Action:** A workshop for ground operators to demonstrate the financial benefits of conducting acceptable environmental practices.

***Key Action:** Encourage tour gide writers to includes statements on accepted environmental practices for visiting such sites and have them highlight, when possible, operators who adhere to such practices.

Needs
For business startup, the region needs two or three reliable firms with a knowledge of the international specialty markets. To develop such firms, support for interested tour operators and individuals is needed, particularly in travel operations and business skills.

***Key Action:** A workshop or a series of workshops covering these topics should be conducted.

In addition, small business loans are needed to finance basic office equipment, outdoor equipment, and transportation. Office equipment should include a computer, printer, phone, fax and e-mail capabilities. Outdoor equipment should include tents and stoves. At the start of business development, transport could be supplied by using rented vehicles.

***Key Action:** Small-business lending program that target the region could assist.

Trail development and maintenance is needed for the walking tours although walks could be organized without further development. Interpreted displays at cultural and natural sites also need support. There are many regional specialists with extensive experience who could act as guides.

Constraints, Problems, Risks
Current lack of demand indicates risk for any tourism development project. Other constraints include the lack of marketing efforts related to walking and cultural tours. The State Committee for Tourism has not had the resources or motivation to focus on these markets. The Zakarpatska oblast government appears to focus its efforts on ski area development. L'vivska governments, while interested in cultural tourism, have little capital for the development of infrastructure. In addition, small shop-tour operators have no experience in these specialty areas and lack capital for business development. Parks and protected areas are have little contact with the tourism markets. High taxes impede entrepreneurial efforts to develop small businesses.

***Key Actions**
*Committee for Tourism or other public or private tourism associations, with support of government bodies at regional and local level, could help market and promote such services through publication and distribution of a regional guidebook. Lists of firms offering such services could also be submitted to international tour operators and international guidebooks.

*Training on tour operator and business skills will be need to be coordinated with the oblast governments of L'vivska, Zakarpatska, and Ivano Frankivska.

*If protected area development is of serious concern to Ukraine, the Ministry of Environmental Protection and Nuclear Safety (MEPNS) must make a more concerted effort to obtain information on tourism management techniques. In addition, it must be more active in establishing ties to individual tour operators. Policies on park fees and concessions need to be addressed. A Peace Corps volunteer specializing in recreation should be recruited to assist development of tourism in the Carpathian National Park and the Carpathian Biosphere Reserve.

2. <u>Small Two and Three Star Hotels and Ski Lodges</u>

Description of the Business

An opportunity exists for either the development or upgrading of two and three star hotels such as the type represented by the Roxolana Hotel in Ivano Frankivsk. Hotels of a more moderately priced class and of slightly lesser quality would also capture some of the market demand. If financing can be found, hotel size should accommodate the requirements of western tour operators: approximately fifty rooms, with sufficient space for one hundred people.

Customer Demand
Results of the marketing studies and tour operator interviews indicate tourist preferences for these types of accommodation. Currently, hotel prices are high and a more moderately priced hotel with good services would be competitive. In addition, for wealthier Russian tourists, now coming to the Carpathians for ski vacations, interviews and journal articles indicate that Russian preferences include small, family-style, two star hotels.

L'viv and Kosiv are logical places for the development of the hotels. L'viv city should be the primary market for development but further research should be carried out to identify a location in L'viviska oblast close to an historic site. One possibility might be Sudova, west of L'viv. Uzhgorod is another possible candidate for this type of accommodation but already has a good, moderately- priced, two to three star hotel with adequate service.

The development of ski lodges should, at first, be focused around the Drogobrat, Tissovets and Slavska areas. These areas are well-known by Russian and Ukrainian clients and were identified as areas with high potential.

Competition
In part, competition would continue to come from the Grand Hotel in L'viv, which controls most of the business trade, although there is a real market niche for the hotels described above. A certain sector of the Russian and Ukrainian ski market will continue to use the larger ex-Soviet style resort hotels. Indications are, however, that the wealthier Russian and Ukrainian clients prefer smaller and more intimate accommodations.

Environmental Implications
Although hotels and lodges can negatively impact the environment through the generation of solid and liquid wastes, smaller business tend to have smaller impacts on the environment. They produce less waste and use fewer inputs, and their environmental impacts are often spread more diffusely over the landscape. Smaller businesses also often find it easier to adhere to environmental laws and have less political and financial power to encourage government officials to ignore environmental degradation. If tourism development accelerates rapidly, however, a large number of small businesses can have the same environmental impact as a few large ones. Moreover, large numbers of small businesses may be more difficult to regulate given the limited resources of government agencies, and the diffusion of their wastes over the landscape can be a liability rather than an asset for the region. Low cost waste treatment and disposal technologies, appropriate enforcement, and environmental planning can mitigate the negative impacts of such businesses.

Needs
Additional market research needs to be carried out at the ski resorts listed above. Information on visitor flows to these areas and information on existing bed occupancy rates was beyond the scope of this project.

***Key Action:** Market research could be sponsored by a donor, by the Committee for Tourism, NGOs, universities, institutes, or tourism associations.

Financial resources are needed to develop these businesses.

***Key Action:** Donor and other small-business lending program that target the region could assist.

Training of hotel staff may be useful but probably not essential to successful business development. In Ukraine, private tourism entrepreneurs have a good grasp of what is needed.

***Key Action:** management training should be provided and budgeted for as part of the business plan.

Constraints, Problems, Risks
Until the system is repaired, water shortage problems in L'viv will present constraints to any hotel. As in all the businesses listed in the report, the lack of a well-developed marketing outlet is a key constraint. National and oblast tourism plans focus on larger hotels and little attention is given to the development of smaller units. Current tax structures also restrict development.

***Key Actions:**
*Marketing and promotion actions involving the participation of the Committee for Tourism will be needed.

*Infrastructure development and financing are necessary, but the availability of loans for these projects is limited. Bundling an investment package of several hotels and lodges in one area is a recommended strategy for acquiring international funding. Linking a hotel in L'viv with the development of lodges for skiing may provide the type of package attractive to international investors. Most development, however, will probably come from the initiatives of Ukrainian entrepreneurs as few international investors will be attracted to the area with its current low demand.

*Regulations for environmental monitoring are in place. Individual inspections of hotels and lodges to determine compliance with environmental codes must be coordinated with oblast officials of the MEPNS. Their willingness to carry out these inspections is unknown. If food is served in hotel restaurants, coordinated efforts with the Ministry of Health would be essential.

3. Bed and Breakfast Development

Description
Bed and breakfasts offer tourists accommodations in local homes. The homestay business has a long tradition in the Carpathians. Even during Soviet times tourists from the main cities vacationed in regional towns and frequently stayed at local residences.

Because of this tradition, interest in providing this service continues. Recent initiatives have taken place in the village of Kosiv. The Kosiv Women's Organization has developed a structure for a Bed and Breakfast Association, enumerated the responsibilities of a central reservation agent, and designed a registration form. The group estimates that there are 30 to 40 families who would like

to participate in a bed and breakfast program and who could accommodate one to three guests. These homes have running water and telephones.

Customer Demand
Market information indicates that for the Ukrainian domestic market there is a need for high quality, inexpensive bed and breakfast facilities. Interviews and information obtained at the regional workshops showed considerable interest in this business, particularly in the Kosiv and Kolomiya areas.

Based on the analysis of areas having a high potential for attracting tourists, Kosiv should be the first target area for development activities. Other areas exist with the same tradition of offering home-based accommodation, however Kosiv also has a tradition of crafts, is aesthetically appealing, and is close to beautiful mountain areas for walking.

Competition
International competition will come from Hungary, Slovakia and Poland. In addition, when the economic crisis diminishes and domestic tourism increases, other areas of the Carpathians besides Kosiv with a tradition in this activity will enter the market. For example, Kolomiya is also interested in establishing a bed and breakfast organization.

Environmental Implications
The most important direct environmental impacts of bed and breakfast businesses will come from solid and liquid waste disposal. In many rural areas, bed and breakfasts will not have access to appropriate waste treatment and disposal facilities, but in small numbers, they will have little negative environmental impact. If tourism development in the CR accelerates rapidly, however, a large number of bed and breakfasts can have the same negative impacts as a large number of small hotels and lodges (see opportunity above). For a discussion of environmental implications related to beds and breakfasts located in rural areas, refer to the discussion below on farm tourism.

Needs
Many of those interested in the bed and breakfast business have experience in offering accommodations. Many continue to offer accommodations to Ukrainian families. Because the market would be mainly domestic, little would be needed for technological improvements. Financial resources in the form of loans for upgrading infrastructure would be useful, but not necessary. Some additional training may be needed to educate entrepreneurs about the preferences of Western tourists if this market was developed.

Constraints, Problems, Risks
Although cheaper than local hotels, high taxes would force a legally operated bed and breakfast to charge the relatively high price of fifty dollars per night per person. Other problems include a $250.00 license charge, fear of organized crime, a lack of marketing know-how, and a lack of local advertising. A further problem is the difficulty individual foreign tourists have in obtaining a visa. Under present regulations a tourist voucher with hotel reservation or tour reference number is required.

Some people will decide to operate unofficially and will therefore be able to avoid some of the problems such as licensing and taxation. However, operating unofficially will make other problems more difficult to deal with such as marketing and advertising.

***Key Actions**
*Marketing and promotion efforts should include a publication of available accommodations. This should be published and distributed in Kyiv along with a location map. For the international markets, guidebooks should carry the information. The nascent, Kyiv-based. Rural Tourism Association is planning to publish lists of rural and farm tourism opportunities and distributing the list.

*Institutional options for regulating the business would have to come either from the Committee for Tourism or their local representatives at the oblast level. Standards are being developed for the tourist industry and international advice would be useful. Short-term actions by the Committee to target this industry are probably limited.

*The Kosiv bed and breakfast association could help provide training and enforce standards for cleanliness, food preparation, and hospitality.

*Environmental and social monitoring should be regulated under the Committee for Tourism. The Kosiv Women's Organization has suggested a tax exemption for retired workers who want to supplement their pensions by operating a bed and breakfast.

4. Farm Tourism

Description of the Business
Business opportunities in this category are similar to the opportunities mentioned for developing bed and breakfasts. Farm tourism refers to working farms that supplement their income by catering to the tourist trade. Farm services can include accommodations such as renting out an extra room, renovating an outbuilding for lodging, or offering a camping area. Other types of farm tourism include operating a restaurant, a small retail outlet for farm products, or offering horseback riding, fishing or hunting. Farm tourism may also consist of participatory activities such as cheese-making, berry-picking, and canning.

The Carpathian mountain area is well-suited for this type business; farmers need the supplemental income, have the tourism resources, and are near tourist markets. Tourism activities can supplement a farm income with minimal investment, depending on their existing facilities. Given the range of possible offerings, farmers can test different options with little risk. They can adapt their tourism program so that the primary agricultural work continues as the tourism business is developed on the side.

Customer Demand
Farm tourism has potential for Ukrainian domestic tourists and Western and Eastern European tourists on walking tours. Reports indicate that the Kosiv area and the area surrounding the Carpathian National Park and Carpathian Biosphere Reserve have potential to attract clients willing to use farm services.

Competition
Competition from Poland, Hungary, and Slovakia will affect the viability of this market. Hungary has an active association of rural tourism that publishes listings of available farm opportunities.

Environmental Implications
Farm tourism will not likely develop on a very large scale and thus it will not likely have large environmental impacts, negative or positive. However, if farm tourism does develop in the CR on a large scale (100 or more farms in a rayon), there are both positive and negative potential environmental impacts.

Rural farms typically have very basic human waste disposal facilities, and thus increased waste loads could result in the contamination of wells and surface water supplies. Because farms are generally small, however, they also have the opportunity to take advantage of many low cost, small-scale waste treatment technologies developed for rural areas. If farms typically heat and cook with wood, large numbers of tourists staying at these homes will increase the need to collect firewood in local forests (similar to the problems from tourism in Himalayan countries). Alternative fuels, more efficient stoves, and the planting of woodlots can reduce these environmental impacts.

On the positive side, farmers who earn significant income from tourism tend to focus on diversifying their production so as to provide many attractions to tourists. They tend to avoid large-scale, mechanized agriculture and livestock operations that involved large doses of chemical fertilizers and pesticides and concentrated amounts of livestock waste. A disincentive to increasing farm size may be considered a bad outcome by some who feel that increasing agricultural production in the region is a priority, but on the other hand, much of the mountainous region of the Carpathians is not suitable for agriculture and the economy may be better off if some residents maintain small farms that derive income from both tourism and agricultural production.

Needs
More support is needed in developing farm tourism than is needed in developing bed and breakfast operations. Some farmers lack the experience of town residents who have a long history of accommodating tourists. Financial and technical resources are needed to help farmers distribute farm promotional materials.

Constraints, Problems, Risks
A key constraint with this enterprise is the lack of marketing outlets available to promote farm tourism services. For the short-term , direct marketing help seems unlikely. Although there is an interest in the Association of Rural Tourism, the Committee for Tourism and its local representatives have not indicated direct support for the program. Local governments are concerned with the development of larger projects. A further constraint is that communities do not have a well-developed concept of what is required to compete in the tourism markets.

***Key Actions:**
*Promotional assistance by local associations could help strengthen and advertise these businesses. Infrastructure demands are light. Setting up a camping area requires little infrastructure development. A water source and clean toilet facilities would be adequate to start. Shelters for camping could be added at a later date as the business grew. More financial support would be needed to upgrade rooms or outlying buildings.

*For marketing and promotion efforts, external donors, the Committee for Tourism, and the Ministry of Agriculture should support the publication of a regional tourism guide that includes farm-tourism opportunities. For the longer-term , they should support the publication of a farm-tourism travel guide similar to the Dutch *Holiday on the Organic Farm* or the French and Spanish

government publications advertising rural tourism opportunities. This guide would provide general and detailed information on the services and activities of participating farms. The guide should be distributed at travel resource outlets in the Ukraine, Central and Western Europe, Canada, and the US. In addition, farm tourism associations must have open access to walking tour operators as tours are planned and developed. Municipal and oblast governments could actively assist these efforts.

*In conjunction with the guide, the Committee for Tourism and the Ministry of Agriculture should develop a system to rate the farms. A quality rating system would encourage operators to maintain high standards, including environmental standards, in order to achieve good ratings. Both government ministries should play an active role in this work. In addition, research should be carried out to confirm the benefits of government support for the Association of Rural Tourism in Kyiv.

*In addition, farm tourism development should focus on education and training programs. Initial work should identify interested farmers. After this step, farmers must be made aware of the kinds of services and attractions tourists are seeking. Organizing a series of workshops would provide an introduction to these markets and the Committee for Tourism and the Ministry of Agriculture should take the lead in these sessions. For the workshops, a foreign tourism expert should be recruited, and several Ukrainian firms invited to make presentations and to advise the farmers on marketing issues. After the workshop, the experts should spend approximately two weeks in the area evaluating farms and advising individual farmers on visitor requirements. Outside financial support of the training would help insure its rapid development and completion. Literature on tourism development should be obtained and translated into Ukrainian.

*Financing should focus on improving infrastructure. In addition to the common recommendation of general tax relief, policy changes to develop specific farm tourism tax incentives should be explored. Examples of such tax structures are found in many Western European countries and usually involve further reductions in the value added tax or incentives for infrastructure improvements.

*Experience in other parts of the world indicate that the active participation of an advisor or an extension agent is beneficial to insuring business success. Extension agents could be provided by associations or cooperatives supporting and linking such businesses.

5. Artisan Studio Tours

Description of the Business

This activity has advantages for both the artisan and for the tourist. Artisans either sell their products at the local bazaar, in shops, or at their homes or studios. If they sell at the local bazaar or in the shops they sell inferior products to keep prices low. Merchants must charge a value added tax of twenty percent in addition to paying wages, payroll taxes, overhead and income taxes. This forces craft prices to increase and the artist must offer the cheaper, lower quality product, to remain competitive.

Many artisans thus reserve their best pieces for sale from their homes or studios. By opening a studio to tourists, the artist can sell his or her work directly without having to pay a middleman or broker. The tourist has the experience of meeting the artist and purchasing a high quality piece at

a lower price. In addition, this activity can be combined with the bed and breakfast activities and the farm tourism activities already described.

Kosiv and the surrounding area is recommended for start-up development of this business. Kosiv is listed as an attraction in all the guidebooks and, with its crafts fair, remains a focal point for those interested in this market.

Customer Demand
Cultural activities are recommended for Carpathian tourism development and are one of the region's strongest market segments.

Competition
Because the project's crafts consultant was not granted travel clearance from the missions in the neighboring countries, a more definitive analysis on the extent of the competition is not available. However, what is known is that Hutsul culture is considered more historically preserved than some other cultures in surrounding countries, with the possible exception of Romania.

Environmental Implications
Artisan studio tours would result in few direct environmental impacts. If these tours are a major tourist attraction, they could contribute indirectly to environmental damage in the context of large-scale, uncontrolled tourism development.

Needs
Promotional outlets are needed to describe the type of art and the location of the artists residence or studio.

No information is currently available either to tourists to the region or to those living in Ivano-Frankivsk about the location of regional artists and their works.

***Key Action:** A small brochure which includes a map is an inexpensive and effective way of disseminating information. Such brochures could be made available at a local artists' information center, local hotels and tourist offices as well as abroad at tourist agencies dealing with Ukraine.

An additional issue is the difficulty of getting works of art through customs. Pieces valued at less than 17,000,000 kpns, approximately $90 US, can be exported duty free. For those valued at more than 17,000,000 kpns, customs duties may vary from fifty to three hundred percent of the stated value. In addition, the buyer must obtain an official proof of purchase from the artist as well as a document saying that the work has no historical value. With a properly executed proof of purchase plus two photographs of the work, this document can be obtained from the State Experts' Committee, or a branch of the Ministry of Culture in Kyiv, L'viv, Odessa or Uzhgorod.

***Key Action:** Options for policy changes at the Ministry of Culture are not known. A mechanism to facilitate export of art work may be difficult to implement. In all likelihood Kosiv area artists would be members of an association with a representative who would have to deal with the Ministry and customs officials. The names of the artists selling their works would have to be given and because of tax issues, artists may be reluctant to enter into a system requiring disclosure of sales. Macro-based policy reform measures, such as those discussed in Chapter 4, could address some of these constraints.

Other Tourism Opportunities

Chapter 4 of the Tourism Strategy describes additional tourism business opportunities for the CR related to skiing and crafts.

3.0 NON-TOURISM SECTOR BUSINESS OPPORTUNITIES AND KEY ACTIONS

As noted in Chapter 1, resources dedicated to the study of non-tourism sectors was minimal. The presentation of opportunities below is based on input from the focus group participants and, unlike the tourism sector analysis, is not supplemented with extensive research. Project team experts in non-tourism sectors, due to time and resource constraints, were unable to study existing and potential markets and most other aspects of implementation associated with the opportunities identified by stakeholders. Therefore, the information that is presented in this chapter is taken directly from the stakeholders and is supplemented with the expertise of project team members when possible. Where insufficient information was available, some sub-headings for individual opportunities have been omitted. It should be re-emphasized that opportunities in these sectors deserve further analysis before being implemented.

Again, we direct readers to Appendix D for information on business planning and financial resources. For the businesses presented in this chapter, we can predict some basic key actions that the business planning process might identify. They include:

- ◊ Create a cooperative or business association (e.g., Ivano-Frankivsk farmers' association) for planning, reconnaissance, lobbying, and implementation (particularly applicable to the agricultural production opportunities)
- ◊ Obtain financing (e.g., secure small loan)
- ◊ Conduct environmental evaluuation
- ◊ Conduct research on environmentally friendly technologies that reduce costs
- ◊ Evaluate ways to reuse wastes in order to reduce costs
- ◊ Create strategy for collecting, processing, storing, marketing, and distributing products
- ◊ Conduct management and/or technical training
- ◊ Locate facilities for production and storage
- ◊ Lease or purchase land
- ◊ Pay fees for access to resources
- ◊ Contract with suppliers of resources or subcontractors for services
- ◊ Obtain or contract vehicles for transport
- ◊ Obtain licenses and/or permit

Key policy and institutional actions are found in Chapter 4.

3.1 WOOD PROCESSING OPPORTUNITIES

Wood-related industries have the distinction of being the area's key economic provider while also being the key threat to the area's most important natural resource and the resource on which it depends: trees. Forests in Ukraine cover about 14% of the country's total land area; in the CR of Ukraine, 40% of the total land area is forested. CR forests contain conifers mixed with deciduous, high quality wood such as beech, fir, oak, and others. Ukraine's CR is part of the country's main timber-producing territory, which includes as well the oblasts of Volunska, Rovenska, and Zhitomirska. Twelve CR cities feature sawmills, and furniture production, lumber-chemical production, and paper production also exist in the region.

While the Needs Assessment Report presents information on forestry, this project's resources were not focused on issues related to forestry management practices or the threats to deforestation, although both issues deserve more study. In a limited capacity, we were able to assess

opportunities for business development in the wood processing sector and, during that assessment, we were able to identify some of the more urgent issues related to forestry management.

Forest harvesting practices are widely considered to have important negative environmental impacts in the CR. The most salient impacts are 1) deforestation, 2) compaction and destruction of forest soils from the use of heavy equipment, 3) ineffective reforestation efforts, and 4) highgrading of productive forests (i.e., removal of valued species, leaving a forest of less desirable species which is more difficult to make productive without significant investment). The negative environmental impacts of forestry could be mitigated with upgraded equipment, but such equipment tends to be expensive. More feasible mitigating options include reforming harvesting rules and reforestation practices, and enforcement of existing regulations.

A profitable wood industry increases the value of a forested landscape, and thus, with environmentally sound practices, wood processing businesses can be important contributors to environmental protection in the CR. Wood processing opportunities must therefore be evaluated in terms of their potential environmental consequences -- both positive and negative, direct and indirect.

1. Collection of Seeds for Reforestation

Description of Business

The business, identified by Rahkiv stakeholders, would entail the collection of seeds and plants from the Carpathian Biosphere Reserve, which is headquartered in Rahkiv, and other State-owned forests in the rayon. The seeds and plants, which include elite, high breed seedlings, would be packaged for sale and planting. Eventually the business could develop into the breeding of hybrids. Focus group participants envision that such businesses would be contractors to the State for reforestation. Participants estimated that probable marketable species would include spruce, beech, and oak.

Customer Demand

Stakeholders who identified this action believed that demand in their rayon, as well as adjoining rayons, for this business's products would be high. The possibility of export was also discussed. For this business to succeed, government foresters would need to commit to purchase a specified supply of forest seedlings over a given period of time. Demand by the public for fruit trees and for ornamentals would need to be determined during the business planning process.

Competition

Focus group participants viewed the State as the business's only competition, noting that the State does not always manage such enterprises efficiently and does not necessarily generate quality products, thereby giving them a competitive edge.

Environmental Implications

The net impact of this business on the environment would probably be positive, because reforestation is critical to maintaining the long-term productivity of the forests and to maintaining the other goods and services provided by forests (e.g., watershed protection and forest products). However, an increased demand for wild collected seeds and seedlings may pose a potential danger, especially for species that are rare or slow to reproduce. Ex-situ seed and seedling propagation also often requires pesticide applications, which could impact neighboring aquatic and terrestrial

ecosystems. If reforestation leads to large-scale use of introduced monocultures, such a business could also have negative impacts on biodiversity preservation and ecological processes in the region (e.g., watershed protection). Negative impacts could be mitigated with appropriate forestry management plans, including clear and appropriate property rights systems, and the use of integrated pest management.

Needs
Resources needed include adequate good land for establishing the nursery, water supply for irrigation as needed, and capital to carry the product through the years that young trees are being grown for sales.

Since the turnover of inventory is slow, a large amount of capital is required to start the business. Capital would be needed to cover packaging costs, construction of greenhouses, market research, training employees on seed selection, breeding of hybrids, and shipping costs. Other cost considerations include energy needed to heat greenhouses and transportation. With appropriate legislative changes, start-up could commence quickly.

Constraints, Problems, Risks
Legislative changes may be needed on the national level to allow for public lands to be used for private purposes. It is currently unclear whether existing permitting procedures allow for this type of activity to occur on State-owned forested lands.

2. Manufacturing of Pressed Logs for Heating

Description of Business
Pressed logs using sawdust and woody residues from local sawmills would be compressed into heating briquettes. Five to six years ago, a briquette was produced in the Rahkiv area but the technology, not yet perfected, did not allow for cutting into short pieces and packaging for sale. According to knowledgeable Rahkiv residents, the process did not require the use of chemicals, although an project expert detected from a sample an odor that indicated the presence of polymers.

Customer Demand and Competition
If the price of the pressed logs is lower than the cost of wood obtained directly from forests and used for heating, demand will be high. Target markets for the product are in the Rahkiv and surrounding rayons. No operations currently in production were identified in the CR. However, principal sources of competition come from other suppliers of heat and energy, namely wood cut directly from the forest and coal. Rahkiv proponents of this opportunity indicate that pressed logs have a higher BTU value than either wood or coal.

Environmental Implications
Manufacturing pressed logs would have a positive impact on the environment because sawdust and other wood wastes would be reused instead of being burned in the open air, flushed into aquatic ecosystems, or left to rot on the landscape. If the logs are used as substitutes to coal, this business would create further benefits by helping to decrease the quantity of certain components of air pollution (e.g., sulfur). Wood fuel is also more desirable than coal from the standpoint of carbon dioxide production (a global warming agent) *if* the cut trees are replanted, because the carbon dioxide released in burning the tree is absorbed by the tree that replaces the burned one.

There are, however, potential negative impacts from the manufacture of pressed logs. Polymers are often used to press wood waste into logs, and these polymers create pollution in both their production (which might take place at one of the many chemical polymer plants in the Ivano-Frankivska oblast) and in their destruction through burning. If the wood logs replace traditional firewood and coal as energy sources, there will be positive environmental benefits, but if the wood logs replace electricity or natural gas, the impact is not so clear. Wood burning is often far more polluting than oil or natural gas-based electricity *when appropriate environmental controls at the power plant are used.* It is not clear, however, that these controls are being used.

It is also not clear that using wood wastes for pressed logs maximizes the positive environmental impact from the reuse of wood wastes. Using such wastes for fertilizer by combining them with other organic wastes might have a larger positive environmental impact by removing the wastes from ecosystems where they are harmful and by substituting organic materials for petroleum based fertilizers or mined mineral fertilizer.

Needs
Both management and technical training would be useful, particularly technical training in modern technologies. Capital investment costs are unknown, but experience in western countries indicates that polymers, which are required for successful production, as well as proper equipment, can be costly. In addition, to make the business profitable, a high volume of residuals would be required.

Constraints, Problems, Risks
The biggest constraint to developing a market for this product is the difficulty of shifting consumer demand from the use of wood to the use of pressed logs, especially if raw wood is cheaper.

3. Consumer Wood Products

Description of Business
Sawmills could produce rough green lumber, dry kilned, and plane lumber. The manufacturer of pallets from green lumber should be considered, as should doors, windows, and molding. Hotel furniture, furniture components, glue-up operations, and dimension mills are also possibilities.

Customer Demand and Competition
Demand for such products depends on the costs of production, quality of the product, and shipping costs. Foreign partners and co-marketing ventures would make production more cost-effective (e.g., Rahkiv Ikia plan). Competition for such products is global.

Environmental Implications
This business could have positive impacts on the environment because additional processing of wood tends to reduce the total demand for trees. A lower demand for trees also reduces the pressure that the wood industry exerts on the Ministry of Forestry to open up forest areas for logging each year.

If the development of this business does not decrease the demand for raw logs, or if it increases it, the following actions can reduce the business's potential negative environmental impacts: the introduction of profitable, environmentally friendly harvesting and processing technologies (but these often cost money that businesses do not have); changes in leasing arrangements (e.g., guaranteed long-term leases of 30 or more years) that give businesses a financial interest in

ensuring that the harvesting process does not reduce the future productivity of the forest (given the current political and legal flux in the country, a long-term lease on paper may be only worth the value of the paper); and the development of scientifically informed forest management plans (the Ministry of Forestry claims it already develops these). Increases in this business activity could also increase the amount of wood wastes that are produced by the industry. Such waste could be fashioned into new products (e.g., see opportunity described above) or used as an energy source by wood processors.

There are several regional institutions that could play a part in developing and improving wood processing businesses (e.g., Institute of Mountaing Forestry in Ivano-Frankivsk; Ukrainian State Forestry University in L'viv) . Among such businesses, a positive role model for energy efficiency and environmental protection in the region is the Ikia plant located near Rahkiv, a joint venture with the Swiss. This plant utilizes its own sawdust and woody residues to provide energy for its kiln and for heating.

Needs
Specialized technical training is recommended and should be fairly easy due to a well-educated workforce. Capital costs for introducing new technologies in the wood industry are generally high. Working capital required is also fairly large. An unknown variable for determining capital investment is the fact that the State owns all the raw materials and controls the price of raw materials. In addition, the amount of inventory a company must hold due to isolated areas of harvest, lack of infrastructure (particularly roads), and the lack of harvest and hauling equipment will make it difficult to predict the amount of working capital needed by a particular firm. Another unknown but potentially significant variable is the cost of access to rail for transport of goods.

Constraints, Problems, Risks
Price fluctuations will be a problem for any firm in these businesses due to state ownership of the natural resource. Again, clarification of laws that govern forest use, both short-term and long-term are required. Much bureaucracy is involved in obtaining cutting permits for private operators and the fact that the State is still engaged in sawmilling and secondary processing activities creates an unattractive business climate for investors because the State controls the supply of raw materials.

4. Construction Materials

Description of Business
Participants in Yaremche believed that this opportunity, production of construction materials, is ripe due to anticipation of a stronger economy leading to increased construction activity. Products would include dried, planed lumber of various lengths, widths, and thickness, as well as doors, and windows. There was no mention of moldings.

Four business people present at the Yaremche focus group had already begun such businesses, and some of the operations are open joint stock companies. Approximately 20-30 such manufacturers currently operate in the Ivano Frankivska oblast region.

Customer Demand and Competition
Anticipated demand in the domestic market at the regional level is high. Before

the Ukrainian industry is competitive in the regional export market, changes in production methods will have to occur. Private enterprises present stiff competition, more so than State-owned enterprises.

Environmental Implications
The potential negative and positive environmental impacts of this business are similar to those listed above for consumer wood products businesses.

Needs
If new technologies are introduced, technical training would be required. Initial capital is required for equipment, high payroll taxes which are due in advance of performance, costly raw materials, and costly energy.

Constraints, Problems, Risks
Complex laws such as the forestry code, contract/commercial code, employment laws, and tax code present formidable barriers to development of these opportunities. Current conditions are not inviting for foreign investors. In addition, policies providing for longer term, more affordable credit is critical to industry growth.

3.2 AGRICULTURAL PRODUCTION OPPORTUNITIES

Focus group members in Rahkiv and Yaremche identified many agribusiness opportunities, most associated with adding value to locally produced goods. To develop this sector, support is needed for the development of private, for-profit agricultural cooperatives, especially agricultural service and input/output marketing cooperatives. Farm management practices need to be improved and technologies are needed for smaller, more competitive production systems. Wholesale and retail marketing and distribution systems, linked to contracted producers, could increase quality, provide lower prices for consumers, and provide farmers with higher commodity prices.

The focus group region of the CR has many open markets where produce is exchanged by money and barter. For example, many raw products are sold to foreign merchants who then move them to neighboring countries in refrigerated trucks where value is added to the products. Typically, farmers and entrepreneurs lack the capital needed to add value to raw products and consumers lack the money to buy products. Thus, the sector would benefit from policies promoting private ownership of land in order to facilitate credit, as well as reforms in taxation. Other needs include infrastructure improvements (e.g., roads) and technological training.

1. Products of the Forests

Description of Business

The regions (Rahkiv & Yaremche) have abundant supplies of useful products that grow naturally. Mushrooms and berries have traditionally been harvested by residents for their own use and for resale. According to focus group participants, good demand exists for these products and the people are accustomed to collecting and marketing the products. The potential for these specialty crops is limited; however, they provide a good source of value added income for those involved. Mushrooms are abundant in both regions; however, their full harvest potential is not being met. More than 70 tons of mushrooms were purchased by buyers from Germany or Slovakia from each of the rayons of Rahkiv and Verhovyna. According to local agriculturists, the potential exists for harvesting well over 200 tons per region per year. Current practice is for refrigerated trucks from these countries to gather the mushrooms at pickup points in the sites of production.

A system for collection, processing, packaging, and marketing of mushrooms, berries, and other products should be developed. For example, the same transportation that would pick up mushrooms could also pick up berries from collection points. Likewise, facilities are needed for packaging products of the forests. Although the products are diverse, a marketing program could serve multiple products. Medicinal plants, although potentially viable for marketing, would require socialized processing and marketing.

Many berries are available in the forested areas. The berries are popular locally as well as in neighboring countries. Although harvested production has been low in recent years, the potential for good harvests is reported to be high. The berries are used as fruit, for juice, juice concentrates, and jams and jellies. They are used locally and if processed, could be sold in cities and in joining countries. Trucks from neighboring countries are reported to buy berries at collection points in some of the towns (Rahkiv & Verhovyna and others). The processing of the products could provide the region add-on value to agricultural goods.

Medicinal plants are considered by local people to be superior to medicinal plants in other regions. In Verhovyna, the administrative office had processed and packaged samples of herbal medicines they wanted to market. Although the potential for such products exists, the presence of a buyer with an established market is necessary to make this business a reality.

These products, although not major industries, could add significant income to good entrepreneurs and should be given consideration. The most likely candidate for improved profitability is with the mushrooms followed by an organized collection and processing of berries. The manufacturing of berry concentrates should be considered as berry processing is expanded.

Customer Demand
Local people like their mushrooms and berries. Neighboring countries also purchase the products unprocessed and return them to their country for processing, packaging, and marketing. Since the quality is good, the demand for the products can grow. Within Ukraine, most of the products serve only the local need on a seasonal basis. One resident who had freezing facilities reported eating mushrooms throughout the year. People also dry mushrooms to consume or sell throughout the year. If the products could be processed, packaged, and preserved, a year-round demand could be developed which would utilize a much greater supply than is now marketed. Transporting berry and berry products (concentrates, jams, jellies) and mushrooms to L'viv and Ivano-Frankivsk for marketing is a realistic possibility.

Competition
Currently the supply that is harvested is apparently sold or utilized by those collecting the mushrooms or fruit. If harvested production is increased, there could be competition; however, it is assumed that with proper processing, storage, and packaging, the market (both domestic and in neighboring countries) would not be saturated. The amount of product that can be collected provides a limit to the competition.

Environment Implications
Wild mushroom harvesting can have direct negative environmental impacts and indirect positive environmental impacts. The direct environmental impacts result from mushroom collection. Mushroom collection is akin to flower collection in plants. The main body of the organism remains intact while the reproductive part is harvested. Over time, if too many reproductive parts are harvested each year, there will be a population decline in the species in the harvesting area. For most types of fungi it is difficult to overharvest the species to a point at which the species becomes threatened. Overharvesting more often results in decreases in future earning potential. There are some fungi species, however, that have limited habitats and there are some mushroom harvesting techniques that damage the fungi mycelium under the ground in the process of collecting the mushroom. Overharvesting can typically be prevented in two ways: 1) limiting the number of harvesters, which can be done through a permit system, and 2) giving collectors exclusive long-term concessions to areas for harvesting, thereby giving them an incentive to manage the species for long-term production.

If some marketed mushrooms are found only in the forest, there can also be indirect positive environmental impacts. If the mushrooms are valuable, and the mushrooms are only found in the forest, then the forest becomes valuable as well. Mushroom collectors thus have in interest in ensuring that forests are protected in the region.

The processing of the mushrooms would have little environmental impact other than the energy and materials used to package the mushrooms and transport them. Processing them before sending them to Eastern European countries could have positive environmental impacts in the same way that processing wood can, i.e., by adding value to the product and reducing the incentive to move large volumes of unprocessed product to make a profit.

Environmental impacts, both positive and negative, from berry and fruit collection and processing are similar to those of mushroom harvesting. The seed of the plant is being harvested, and thus collection could potentially interfere with the reproduction of the species. There is some anecdotal evidence that the harvesting of berries and mushrooms in the CR is not well organized and results in damage to many of the plants and fungi.

Needs

The expansion of processing and utilization of the products could begin gradually and increase as the involvement and markets evolve. Initial production could be for the local markets combined with trial marketing in larger cities. Canning facilities could expand product utilization and as the business experiences success, the addition of freezing and possibly freeze drying facilities could expand the business further. The business could cater to the seasonal market initially and as the product becomes available, processed for later use. The facilities needed are organizational skills (to organize collectors, establish collection points, and have pickup vehicles mesh with the collectors), suitable transportation (refrigerated) to transport the raw products and after processing and packaging, the final product. Marketing points in the cities need to be established.

Financial capital needed: When the markets are identified, and a marketing plan developed, funds will be needed for a mini-processing, packaging, and storage facility, and a transportation capability. The plan should include components that will allow more than just a short seasonal use of the facilities. The cost of the equipment needed will vary, depending on whether it is purchased new, bought overseas, or existing equipment is modified for use. Equipment should be utilized which will make use of the labor available in the region. Estimates suggest amounts of $50,000 to $100,000 for initial startup in one region. As the business achieves success, expected expansion into other villages of the region would require additional capital. Thorough business planning is mandatory if the project is to succeed.

Constraints, Problems, Risks

Although many of the products will be collected on government land, good land title policies are necessary for entrepreneurs to enter into ventures committing land, labor, and capital for operating the businesses.

The major constraint is the lack of organized marketing of the product and the establishment of facilities to process, package, and store the product.

2. Products of Bees

Business Description

The focus group in Yaremche identified bee keeping as a business opportunity with considerable potential. Bee keeping was observed in the Rahkiv region as well. Bee honey, beeswax, comb honey, and some medicinal products are marketed locally, but in general the number of hives of

each producer is low for economical production. Products are currently sold in local markets; however, producers have the desire to expand the business. For major expansion, growers will need to organize, expand their capacity to produce, and develop a processing, distribution, and marketing system. This could best be accomplished through the creation of a producer owned cooperative.

Activities could include the production, processing, distribution, and marketing of bee products (bee keeping). Products would include bee honey (both strained and comb), bees wax, and medicinal products.

Customer Demand
Currently, bee products are sold in local markets as they are available. The products are produced by individual efforts and availability is, for the most part, seasonal. Many producers are small, producing products only for their own and family use. The local demand, according to focus group members, is not met and there is excellent potential for expansion of markets to CR cities and to other countries.

Competition
Local competition exists, although the extent of this competition was not determined. Availability in local markets is determined by the time of year that pollen producing crops are available for the bees to harvest. Local producers, for the most part, are small producers who don't depend on bee products for income. If a major increase in production is called for, producers could work together to provide processing and marketing facilities.

Environmental Implications
Bee breeding is not likely to have any serious negative environmental impacts. In some cases, the introduction of bees can help the pollination of certain species. This effect may or may not be desirable, depending on the species aided and the environmental goals one is trying to achieve. Bee breeding has the potential to help environmental protection by creating a group of individuals who have an interest in preventing the widespread use of pesticides in the area. Pesticide applications can hurt apiculture by killing or weakening the bees and contaminating the honey.

Needs
To expand sales beyond the local area, a central processing, packaging, distribution, and marketing plan and system is needed. The center can begin small and expand as markets and production increase. The costs of creating such a business are modest at the beginning, but growth could demand considerable financial resources. Bee products processing and marketing experts should be utilized to determine proper direction for the business. This should be followed by preparation of a viable business plan with incremental stages of expansion.

Financial capital needed: The initial capital requirement is small; however, as production grows, increased processing, packaging, and distribution equipment will be needed. The business could develop and grow as production capability and consumer demand grows.

Constraints, Problems, Risks
Bees are effective pollinators of many crops and desirable in the agriculture community. The use of insecticides by farmers can be devastating to the life of bees; thus, good communications need to exist between local farmers and bee keepers. Use of pesticides is now low in Ukraine, largely due to the inability to buy them. As farm economy improves, the use of insecticides could increase and

create a problem to bee keepers. Bee keeping is practiced in many countries throughout the world. The creation of a new business for producing export product will meet serious competition. In addition, competition from imported honey will be a factor.

If the products are to be exported, standards should be developed by the government to insure that export standards are met. European standards for product quality should probably be determined and adopted so uniformity of production could be maintained.

3. Mini Dairies

Description of Business

Milk products could be processed in mini-dairies to produce products for small and medium-sized markets. Such a plant would pasteurize and skim the milk and produce butter from the cream and soft cheese from the skim milk. Production of yogurt and sweet creams could follow as markets are developed. The milk for the plant could be supplied by private farmers who could be contracted to provide a continuous supply of milk. Good packaging and marketing must be incorporated into the facility if it is to succeed.

Customer Demand

In Verhovyna a private store was selling imported, processed dairy products. The proprietor had a brisk business and said if people had money, the demand would be great. The cost of locally produced products should be less than imported products and customer demand should be brisk. As people become accustomed to different products (for example sweet creams, flavored yogurt, etc.), new demands will develop. Demand for a processed, attractively packaged product in the cities should be good. Export potential exists.

Competition

Competition for processed foods exists from a limited supply of imported goods and from fresh goods. An efficient business should be competitive.

Environmental Implications

Mini-dairies should have minimal impacts on the environment. The biggest direct potential impact is from the production of organic wastes, but many byproducts of the operation are reusable. The biggest indirect impact will result from increased demand for dairy products which, in the absence of more efficient milking or husbandry technology, may increase the numbers of animals grazing in the area. Despite existing regulations, a large number of mini-dairies in the region could create incentives for farmers to exceed the capacity of local grazing lands. Overstocking could be a problem particularly on common property lands for which there do not appear to be clear property rights determining access.

Needs

A small facility will be needed to house the mini-dairy processing facility. The employees of the facility will need technical training. Modern mini-dairy processing and packaging equipment will be needed as will refrigerated transport facilities. Manufacturers from European firms are available to supply such equipment. Israel produces mini-dairy equipment that would adapt very readily to conditions here.

Financial Capital Needed: Housing for a mini-dairy could be provided from deserted Kolkhoz/Sovkhoz sites. Equipment cost would depend on where it was purchased, whether new or used, and on the volume and diversification of products to be produced. Mini-dairy plants have been installed on a pilot basis in Central Asia and the plant equipment was provided at a cost of about $120,000 US per plant.

4. Fruit and Vegetable Processing Plants

Description of Business

Most fruit and vegetable canning facilities in the Ukraine have huge capacities and declining markets. The quality of products is below Western standards and the packaging not attractive. The creation of mini-processing facilities could address the problem of quality and attractiveness of products. Reportedly, two-thirds of vegetable and fruit production is canned, either as preserves or juices. Canning involves the preserving of produce in glass jars sealed with aluminum lids that do not twist off. These lids are hand packed and later pried off, with no reusable lid. The addition of high-quality reusable packaging components such as resealable jars and "ziploc" bags would add to quality. The production of high quality processed fruits and vegetables is a business needed in the regions visited. The facility could process routine fruits and vegetables and specialty crops, such as mountain berries and mushrooms. Good packaging and improved shelf-life would help the business succeed.

Customer Demand

The small businesses selling processed (imported usually) products say they have a brisk demand; however, many people can't afford the cost of imported products. Good materials, reasonably priced, should be in demand. Development of markets in the cities (and possibly for export) would add to the demand.

Competition

Competition from foreign products exists but local production should provide a very competitive price. Attractively packaged products with a good shelf life should compete well. Export potential exists.

Environmental Implications

Agricultural processing facilities typically produce a significant amount of organic waste. If this waste is flushed into waterways, it becomes a pollutant contributing to eutrophication. If good waste handling procedures are followed or if the wastes are reused, the direct negative environmental impact of this business should be minimal.

Significant increases in fruit and vegetable processing could have indirect environmental impacts by raising the demand for fruits and vegetables. The impacts could be positive or negative depending on how changes in demand affect the crop diversity in the region. The new cropping patterns may demand more or less pesticides and chemical fertilizers than did past patterns, and they may result in more or less soil erosion.

Needs

A small building with equipment is needed. Good transportation and a reliable market are a necessity. Management training should be provided.

Financial capital needed: The size of the operation will determine the capital needed. The availability of used and modified equipment can reduce the cost of the business.

5. Agricultural Service Center

Description of Project

Farmers throughout the region lack modern agricultural equipment and processing services. The creation of an "Agricultural Service Center" to provide services to private farmers should be successful. The placement of a center seems viable in the Ivano-Frankivska region where there is a large, successful, and apparently well-organized Private Farmers' Association.

The availability of an agricultural service center could serve private farmers by providing services not ordinarily available to small farmers. The availability of rental equipment, custom equipment work, repairs, processing, storage, and service provisions could serve farmers well and help make them more competitive with larger units. Support for the services will be provided by farmers payment for services received (either cash or a part of the produce produced). The center could provide custom services with equipment, storage for farmer produce, processing of farmer produce, purchasing for farmer inputs, and marketing of farmers produce.

Customer Demand

If the services private farmers need are available, the demand will be high.

Competition

Competition should be minimal as few, if any, other providers are available.

Needs

The facility will require equipment to provide resources that farmers demand and properly equipped processing facilities to process produce either for a fee or for a share of the product.

Financial capital needed: Considerable capital will be needed, financed over an extended period, to enable implementation of the business.

Environmental Implications

The business will have little direct negative environmental impacts, with the exception of waste disposal, particularly petroleum products and toxic chemicals. Indirect environmental impacts may arise if the services or products of this business allow farmers to change the types of crops they plant (see Fruit and Vegetable Processing above) or to extend the agricultural frontier into currently intact native ecosystems.

Constraints and Problems

Financing to establish the business will be a major effort. Services will need to be good or farmers will not utilize the business

Governments should provide the legal framework for creation of a farmer owned cooperative or business.

6. Sheep Milk Cheese

Description of Project

Sheep milk cheese is somewhat unique to this region and considered a delicacy by local residents. The cheese is made by the shepherds in the mountain areas during the summer. The shepherds milk the sheep, carry out the preparation of the cheese, and owners collect the cheese at regular intervals. Local residents feel there is a market for increased production of the cheese. Focus group participants felt that there would be a good market for the packaged product if properly marketed. One female sheep can produce sufficient milk for about eight kilograms of cheese per year. Two kinds of cheese are produced from sheep milk in these regions. Both are considered by local residents to be very delicious.

Customer Demand

Local residents are very enthusiastic about the cheese. They feel the demand for properly packaged cheese would be very good in the cities.

Competition

Other cheese products are potential competition; however, local people say no other cheeses are direct competitors.

Environmental Implications

Producing cheese from sheep's milk will have few direct environmental impacts. The biggest potential impact of this business, like mini-dairies, will be indirect, through the grazing of sheep that produce the milk. Overstocking is very possible on the alpine meadows over which there do not appear to be clear property rights determining access. While some focus group participants indicated that rayon administrations properly manage meadows to avoid such overstocking, other participants disagreed. To develop this business opportunity in an environmentally sound way, proper oversight from the rayon government, or changes in grazing land property rights, would be required.

7. Fish Farming

Description of Business

Both focus groups mentioned the possibility of fish farming. Although several varieties of fish were mentioned, the prevailing favorite was sturgeon for meat and for caviar eggs. In Rahkiv, the head of the Private Farmers' Association has a business plan prepared and a loan for the project pending.

Customer Demand

Demand exists both locally and through export channels for the products.

Competition

Not determined, however production occurs in other regions of the NIS.

Environmental Implications

In general, freshwater aquaculture has two potential negative environmental impacts: (1) nutrient rich water flows from ponds to surface waters contributing to eutrophication; and (2) nonnative, cultivated fish escape into surrounding surface waters and disrupt native ecosystem. Both impacts can be mitigated with well constructed ponds and appropriate management. The second impact

may be improbable if the proposed fish for cultivation cannot survive in the local ecosystems (e.g., the fish cannot survive the long winter without an exogenous food source).

Depending on the species used and the region, aquaculture can sometimes reduce the human pressure exerted on wild caught fish resources, thereby having a positive environmental impact.

Needs
A large pond area with a supply of fresh water. Good management experience is necessary, possibly requiring training.

Financial capital needed: Major capital requirements are needed for construction of the fish habitat, for processing, packaging, and storing the fish. Likewise, the quality must be maintained by use of refrigerated transport vehicles.

3.3 ALTERNATIVE ENERGY OPPORTUNITIES

Participants in the focus groups and stakeholder workshops generated few ideas for business opportunities in the areas of energy efficiency and alternative energy primarily because the participants knew little about the opportunities and requirements for developing such businesses. These businesses, however, can be important contributors to environmental protection and economic development in the CR.

Most of Ukraine's energy is imported. Prior to the USSR's collapse, Ukraine obtained this energy at prices well below world market prices. After independence, energy prices in Ukraine rose to world levels. Given that Ukraine's economy is very inefficient in its use of energy, high energy prices have become an important constraint to economic development and have led to decreases in economic output.

Business that teach other businesses, households, and power plants to use energy efficiently and businesses that provide alternative sources of energy can promote economic development by reducing energy costs in the CR. Such businesses can also promote improvements in air quality. With increased energy efficiency, the CR will use less energy, and thus produce less pollution. With alternative sources of energy and increased energy efficiency, Ukrainian power generators will depend less on coal, a very dirty current source of energy. Alternative energy sources and energy efficiency can also decrease pressures on forests (by decreasing the need for fuelwood), and decrease the negative impacts of petroleum and coal extraction and processing by reducing demand for these products. Businesses that encourage energy efficiency and alternative energy sources can provide short-term, nonregulatory, financial incentives for environmental protection in the CR, incentives that are critical given the Ukraine's weak economy and limited government resources.

Regional governments in the CR recognize the important role of energy in the development of their economies and are taking some measures to address the issue. The Zarkapatska oblast is in the process of developing a program for the development of a power industry. L'vivska and Ivano-Frankivska oblast authorities have started energy efficiency promotion efforts. All three oblasts, however, are constrained by limited financal and technical resources. Private businesses can play an important role in relaxing these constraints.

1. Energy Consulting Company

Description of Business

The business would provide technical information and training to CR businesses, local governments, and power plants to permit the development of alternative energy sources and to demonstrate how energy can be used more efficiently. Drawing initially on expertise that exists in Ivano-Frankvisk or in L'viv, such a business would provide valuable services to a wide range of CR businesses. By improving the efficiency of CR business production processes, this business will have an impact on the CR far greater than simply the profits it generates.

Over time, the business may find it profitable to expand its operation to include a wide variety of environmental auditing services (e.g., helping businesses examine their operations for affordable ways to cut energy use, chemical use, waste production, and to improve plant safety and methods of waste disposal). Such a business could base its services on methods developed by US and European corporations to encourage employees to examine production processes and make them more efficient and more environmentally benign.

Customer Demand

Lack of information on the benefits of available technologies and the continuation of government energy subsidies, both direct and indirect (e.g., allowing businesses to be several months late in payment), constrain demand for the services of this business in the CR. Subsidies, however, have decreased substantially over the last few years and are likely to continue to decrease. Moreover, in recent years, the Ukrainian government has increased its educational efforts on energy conservation and, given high energy prices, more and more businesses are eager to hear how they can increase profitability by decreasing or changing energy consumption patterns. After some initial advertising and educational efforts, the services provided by this business would be widely sought by CR businesses and power plants. In the beginning, many businesses may be unwilling to pay for these services because they are uncertain about the expected benefits. After a few concrete success stories, however, this business will not find it difficult to find clients for its services (to reduce expenses in the early stages of the business, the owners/staff may want to investigate the possibility of starting as an NGO and then switching to a for-profit status after a clientele and a reputation are established).

Competition

To our knowledge, such a business does not exist in the CR. There are a few governmental and nongovernmental organizations in Kyiv that could be potential competitors, but they are not as familiar with the CR and its potential customer base as a local entrepreneur would be. A regional business with closer contacts with regional businesses, governments, and power plants would have a greater chance of generating a clientele. Moreover, the Kyiv-based organizations are not run by entrepreneurs and thus may not have the skills to market their services effectively.

Needs

The business would need little in the way of start-up capital and finances (about $10-$20,000 for office supplies, control and measuring equipment, technical materials in paper and electronic forms, and early marketing efforts). The most important input for this business is information and a staff capable of transferring the appropriate information to others. The staff would have to be well informed on current technologies and how they may be adapted to the CR's circumstances. Outside consultants may be necessary in the beginning to ensure the staff has this knowledge. The business owners and staff may come predominantly from the scientific community and thus may

have little knowledge of how to run a business, including such key components as marketing. Training in basic business skills may be necessary.

Environmental Implications
This business would have few negative environmental impacts and could have great positive impacts on the CR environment. See discussion in introduction above.

2. Other Alternative Energy Opportunities

The Carpathian region appears to have good hydropower potential, although further research is necessary to develop cost-effective, environmentally sound technologies for the CR. Despite potential negative impacts on aquatic and terrestrial ecosystems, hydropower development does have one important positive impact: it increases the economic value of forests that protect the generator's watershed.

Manure anaerobic fermentation plants, another potential energy source, could simultaneously produce energy and take care of the problem of livestock pollution in regional waterways. Animal waste could also be combined with wood waste from the region's timber processing plants to produce energy through anaerobic fermentation.

Another alternative energy business opportunity, manufacturing of pressed logs, is discussed in Chapter 3.1 above.

4.0 ENABLING POLICY ACTIONS

There are no magic recommendations that will improve the prospects for private business development in the CR. Small business opportunities are limited by a number of deficiencies in law, poor macroeconomic conditions, insufficient or deteriorating infrastructure, and the myriad of other obstacles that can be expected in a major transition from state socialism to a more capitalist-oriented system. Central/Eastern European countries, which implemented reform measures following their transition, enjoyed a trend of increases in the number of new business startups that lasted several years. In Ukraine, private businesses were illegal prior to 1989 when the law was changed to allow the introduction of private, cooperative entities. Despite this change, and more recent changes which allow a variety of private organizations to exist, Ukraine appears to have fewer than 20,000 registered active private businesses at this time. This number is far smaller than the numbers generated in other transition countries during the same seven year period, indicating in part that Ukrainian policymakers should consider more policy reform measures that would enable private sector development.

Resistance to the development of private businesses in Ukraine is due partially to explicit decisions at the highest levels not to encourage the growth of private entities. Part of this problem is probably due to the retention of much of the existing bureaucracy and the bureaucracy's lack of knowledge about how to deal with or encourage private firms. Part, still, may stem from the pervasive conflict of interest between governments and state-owned enterprises at all levels and the private sector. The joint effect of these issues and of related issues is to produce a climate which is distinctly unfavorable to private business development and implementation.

4.1 Major Goals for Economic Restructuring

As the transition from a State-controlled to a private sector economy occurs, three goals should be considered critical to the development of business opportunities in the CR.

1. Reduction of the transaction costs associated with doing business. Currently, many transactions take extensive interaction with the national, oblast, or rayon administration. Transactions are in cash or take place as barter transactions. Many of the standard rules normally found in a commercial code are missing, as are many of the standard contract safeguards built-in to a better-developed legal system.

2. Establish and maintain competitive markets. Many of the people in the Ukraine appear to believe that the mere existence of a market is sufficient to bring them the gains of a private-property market system. It is the competition within the marketplace that leads to lower prices and better products; government can establish and police the rules which keep the markets open, competitive and honest.

3. Move to an open economy as quickly as possible. This will bring pain and dislocation to some industries and businesses, but it will provide valuable information to entrepreneurs who will be able to compare local prices and products to world prices and products. These price signals provide critical information for entrepreneurs seeking to exploit opportunities for improvement

All three goals need to be accomplished if Ukraine is to become a competitive economy that generates new business opportunities on a regular basis. There is no doubt that the task is difficult.

The prior decisions in Ukraine not to seek the rapid rationalization of the economy have clearly slowed the pace of adjustment and have decreased the personal welfare of most citizens. If the people of Ukraine are to prosper in a private-property market system, they must choose to compete. Other countries in Eastern Europe have done better--and they provide lessons from which Ukraine can learn. Western advice and assistance can also help in the transition process.

4.2 Policy and Institutional Actions

The first three actions listed below are considered by the project team to be the highest priority actions for creating an enabling environment for private business development in the CR of Ukraine. The second set of actions, Priority Actions, are also considered important, but are a lower priority.

High Priority Policy and Institutional Actions

1. <u>Privatize/Reform Land Use Laws</u>.

Property. Private property is essential to the development of a competitive market economy. Privatization is especially important for small businesses, since small businesses are often started to exploit opportunities associated with the reorganization of existing resources. If small businesses cannot find a way to obtain title to land, the opportunity to make the resources more productive may disappear or remain unexploited. Perhaps the most critical failing in property law in Ukraine is the inability of the owner to sell or hypothecate (pledge) property at will. The ability to quickly and easily transfer title helps rationalize the economy as people who think they can produce more value with a set of resources bid for those resources. The economy may still become more efficient over time without the right to sell, but the process will be slow and adjustments that improve efficiency will be more costly. The right to pledge property means that one of the major resources of Ukraine, land and the improvements on the land, can be used to support credit transactions that lead to new investment.

Complete privatization would eliminate many potential conflicts of interest between private business owners and state-owned enterprises operating within the same industry. The conflict-of-interest phenomenon is particularly clear in the timber industry in CR, as government sawmills might receive more favorable allocations of forest resources than private entitities.

Recreational Infrastructure. Many Ukrainian stakeholders, particularly those local government representatives and members of the tourism sector, raised the issue of further privatization of recreational facilities managed by trade unions, which are neither public nor private. Currently, trade unions do not have enough resources from their members and the state has stopped subsidizing them, leading to a continuing decapitalization and mismanagement of recreational infrastructure. One action worth exploring is giving local governments the authority to privatize the trade union recreational facilities in order to improve the efficiency of such valuable CR economic resources as hotels, spas, etc. Private ownership should also help to upgrade tourist facilities, to increase tax revenues (trade unions have tax exempt status), and prevent increases of anthropogenic pressure on the natural environment from new investment projects.

Land Use/Forestry. Long-term leases to wood-cutting enterprises should be explored, which would promote foreign investment and create incentives for environmental protection and sustainable forestry practices

Development of environmentally sound tourism and other businesses in the CR largely depends on sustainable management of forest resources, which are the major asset of this region. One of the crucial issues related to sustainable forestry is that of clear strategic land use decision making; e.g., determining which of the forested areas will serve predominantly ecological purposes (e.g. national parks), which are designated to support tourism development (e.g. ski slopes), and which are predominantly devoted to the timber industry. International experience indicates that long term leases of land and forest resources create a stable base for environmentally sound management of forests.

2. **Reform Tax Policy**. Current taxation rates for businesses reach 80 to 90%, according to stakeholders. Taxes should be lowered for all businesses, regardless of size or sector, since the high level of taxation is inhibiting both industrial development and job growth at all levels. Tax reduction will enable businesses to retain more earnings in the firm, increasing investment and production possibilities. High tax rates also encourage "gray zone" activities, which further deters foreign investors. Complicated and excessive tax regulations complicate the situation.

For smaller businesses, the Ukrainian government should consider a policy that lowers the tax on the first $25,000 to $50,000 of profit, up to a level of 15 percent. This policy will encourage smaller businesses to report actual profits, boosting government tax collections, while leaving more income in the hands of business owners for consumption or reinvestment purposes. While consumption may grow initially, experience in many other countries indicates that most of the profits will be retained in the firm as investment or working capital.

At the national level, tax laws should be simplified; the discretionary authority of poorly trained tax personnel should be curbed; collection should be improved; and foreign trade taxes should be adjusted to World Trade Organization standards.

At the oblast and municipal level, tax collection should be improved; tax staff re-trained; and exemptions for environmentally sound businesses introduced.

A popular recommendation among stakeholders is reduction of the value added tax (VAT) for select sectors, such as tourism. While stimulating economic development in those sectors, the VAT proposal presents public policy concerns by singling out special sectors for tax advantages while the rest of the private sector struggles. If proposed as a model experiment, which could be extended to other sectors, the conflict might be lessened.

3. **Improve Investment Climate**. Clearly, insufficient investment capital is a barrier to business development in the CR. Negative economic growth and inflation inhibit growth of domestic savings and their transfer to productive investments, as well as the influx of foreign investment, which is so critical to an economy in transition. Given all of the major barriers to investment (see details in the NAR), both national and regional/local governments should work closely to encourage domestic and foreign capital for investment by: 1) stabilizing policies and market rules; 2)correcting erroneous laws and policy instruments (see discussion above); 3) hastening development of capital market structures with secondary market institutions, real estate agencies and more complete and transparent legislation; 4) stimulating the banking sector; and 5) strengthening Ukrainian currency and liberalizing price controls. Experience from other countries in Central and Eastern Europe indicate that these measures are more effective for facilitation of domestic and foreign investment than special privileges such as tax holidays or free economic zones. Moreover, such measures will

help transform the Ukrainian economy into a normal and mature capitalist economy, which creates equal opportunity for domestic and foreign investors, industries, and regions.

Priority Policy and Institutional Actions

4. Introduce Land Registers and Collateral Registers. These registers allow identification of property pledged as collateral for loans, and simplify the process of checking collateral to see that it has not been pledged more than once. The Ukrainian government should be commended for beginning work on the land reform efforts needed to provide a base for land measurements and title clarification.

5. Reform Contract and Commercial Law. Establish a legal task force to review contract law and to prepare a uniform commercial code which standardizes definitions of ownership and provides common terminology for standard contract provisions. There are good examples of such codes available in Western Europe and, increasingly, in Eastern Europe. USAID programs have helped with development of several such codes.

6. Reform Export Policies. Controls on export transactions should be eased, and arbitrary restrictions on smaller businesses lifted. These changes would help timber and wood product sales in the CR, as illustrated by two cases in the region. First, a saw mill operator in Rahkiv reported that he was only allowed to export after 80 percent of his output was distributed in the Ukraine. Since demand in the Ukraine is low, much of his processed lumber is piling up as inventory. He can readily export the 20 percent that he is allowed to export. Second, a Czech investor who purchased and improved another sawmill went directly to the appropriate authorities and told them that he was planning to export 60 percent of his output. When the officials protested, he asserted that he was unable to sell the wood in Ukraine, and he had made a major investment in order to make a profit. That profit was available through exporting. The authorities accepted this argument. Restricting exports deprives Ukraine of foreign exchange earnings that can be used for critical imports.

7. Enact Anti-Trust Legislation. The government should issue a strong policy statement that it will not tolerate the establishment of monopolies that result from government policy, from artificial or arbitrary barrier to entry, or from fraud or threat of physical force or coercion. The government must deal with existence of organized crime that is adding a layer of private taxation (extortion) to the forces that are inhibiting the growth of small business opportunities.

8. Reform Lending Law. Change the law so that other types of financial organizations (both profit and non-profit) can make loans, as well as foreign banks.

9. Introduce Small Business Training At the local level, develop a government training program to introduce rayon or city officials to the opportunities inherent in supporting smaller businesses as part of a local development program. Small business leaders (where they can be identified) should be provided the same training. The training should review techniques for improving government services, and should emphasize the government's responsibility to provide services rather than to operate as competing public businesses. The concept of contracting for civic services should be reviewed in detail, particularly emphasizing opportunities for introducing competitive bidding processes and multiple awards to smaller firms when economies of scale are

not at issue. Recent evidence indicates that economies of scale do not affect many of the services provided by local governments.

10. Improve Enforcement of Economic and Environmental Laws. Poor enforcement of economic and environmental laws and regulations, such as those related to bankruptcy, anti-monopoly initiatives, and environmental protection should be addressed. Not only does poor enforcement diminish the climate for rule of law that is needed to attract serious investors, it hurts development efforts. For example, poor enforcement of the bankruptcy law has created an ironic situation in which deficient enterprises working at very low level capacity (30-40%) are fully compensating their workers by filing for bankruptcy, while full-time public sector employees are receiving their compensation with several months of delay and at less value in real terms because of inflation. In other words, poor enforcement of bankruptcy laws are contributing to a bankrupt state budget.

Weak enforcement of anti-monopoly laws keeps certain markets out of domestic or foreign competition, frequently resulting in products and services of low quality; overpricing of monopolistic goods or services, which in turn covers low efficiency of such monopolists; and, finally, high consumer bills.

Weak enforcement of environmental laws contributes not only to environmental degradation, it also prevents the development of the environmental business sector, which is now booming in those Central and Eastern European countries that introduced strong enforcement.

As experience from other countries more advanced than Ukraine in transition to market economy indicates, effective law enforcement should accelerate modern and environmentally friendly restructuring and increase efficiency in the Ukrainian economy, as well as improve its competitiveness, both domestic and international.

11. Improve Infrastructure. Many aspects of infrastructure in the CR should be enhanced in order to support economic development. They include roads, which are often unpaved, poorly paved, or poorly marked; transportation networks, including uncomfortable and sporadically scheduled trains and limited airline service; communications, which are frequently unavailable or unreliable; potable water and sewage systems, which are often unavailable or inadequate; energy supply, which is inefficient and insufficient.

4.4 Additional Recommendations for Enabling the Tourism Sector

Other actions recommended for creating a more enabling environment are summarized briefly below. Since they apply exclusively to the tourism sector, they are presented in detail in Chapter 5 of the Tourism Strategy.

Marketing and Promotion Actions

1. *Tourism marketing program*: combined and organized effort by national, regional, and local governments to promote tourism attractions, private and public, in Ukraine.
2. *Open small information offices in Western Europe*: The Committee for Tourism (CFT) has already started this initiative.
3. *Develop a guide to bed & breakfast and farmer tourism facilities:* participating farms would contribute to the effort, organized by the CFT, and distributed domestically and internationally.

4. *Establish a promotional center in L'viv:* would act as a type of tourism chamber of commerce.
5. *Promote attractions in foreign guidebooks and other media*: with good promotion efforts, could be accomplished with nominal costs.
6. *Publish a regional travel guide*: would update existing guidebooks and be distributed internationally.
7. *Promote attractions on the Internet*: select information from guides could be placed, with little cost, on Internet for international access.
8. *Publish guides for each parks and protected area*: essential to preserve and develop revenues.
9. *Form the Western Ukraine Regional Promotional Association:* should be achieved after the organization of the regional promotional center, to serve as a base.
10. *Organize a familiarization tour for Western tour agents*: Ukraine's image could be improved.
11. *Encourage and support travel writing on the CR:* will help promote a positive image of Ukraine.

Institutional Development Actions

1. *Advise and train CFT personnel on statistical data collection*: would help analyze the tourism market in Ukraine.
2. *Advise and train CFT personnel on economic feasibility analysis for tourism infrastructure projects*: would aid tourism officials in selecting and prioritizing future project development.
3. *Strengthen the research capacity of tourism institutes and academic institutions*: would enable tourism officials to obtain more reliable information on markets.
4. *Provide training for the organization of specialty tours*: would extend specialized skills to ground operators.
5. *Conduct training on the Limits of Acceptable Change system*: this system analyzes the environmental, social, and economic impacts of tourists.

Environmental Actions

1. *Establish park entrance and user fees*: a uniform system would force analysis of resources required to maintain sensitive areas and return revenue to local managers who oversee resources.
2. *Educate park managers and tour operators on techniques for environmentally sound practices and management and the environmental assets of their region:* would educate managers and operators on modern technologies for mitigation of environmental damage related to outdoor recreation and enable them to introduce visitors to the CR's natural features.
3. *Institute standards for acceptable change to measure tourism impact*: rather than using expensive monitoring techniques, would employ low-cost sampling techniques.
4. *Implement proactive solutions to environmental impact*: zoning, planning, and fiscal policies would address impacts of tourism infrastructure development and control wastes more effectively than reactive solutions such as monitoring.
5. *Promote the involvement of rayon governments in development activities*: through participatory planning and zoning, negative environmental impacts could be avoided and the economic base expanded.
6. *Reallocate existing taxes to environmental programs*: would target revenue to activities that directly protect environment, such as reforestation and water purification.
7. *Establish professional organizations with an interest in protecting resources*: would assist in educating beneficiaries and offer an avenue for influencing policy.

8. *Create an organization of civil rangers*: drawn from tourism businesses and NGOs, would help environmental enforcement agencies and receive small stipends from off-budget ecological funds.

5.0 CONCLUSIONS

This action plan demonstrates that private sector development in Ukraine is possible despite major obstacles. Small and medium-size environmentally sound businesses can be started by interested entrepreneurs drawing on their own expertise and resources. Given the CR's rich natural resource base, its cultural and historical tourism base, and its experience in the sectors of forestry and agriculture, opportunities presented in this action plan are within reach. At least one opportunity, an energy consulting company, is without precedence in the CR but is highly recommended because it addresses the region's critical energy problems in an environmentally beneficial way.

Clearly, though, individuals must plan carefully and consider such critical variables as demand, supply, competition, and environmental impact, in addition to institutional issues such as management training and policy issues such as taxation and land use. Since the EPAT project team was unable to conduct individual business plans for entrepreneurs interested in any of the businesses presented in this action plan, we re-state and strongly emphasize the need for proper and thorough planning before investment occurs.

While individual business plans must consider Ukraine's disabling policy and institutional barriers, Ukraine's policymakers and business leaders must take actions to ensure a better business climate. As Ukraine restructures its economy for a more competitive world position, it should seriously pursue three overriding goals:

1) Reduce the transaction costs associated with conducting business;
2) Establish and maintain competitive markets; and
3) Facilitate an open market economy.

Examples throughout Central and Eastern Europe have proven that post-transition countries have helped fuel their economies by introducing policy and institutional reforms that support these three goals. The highest priority actions for enabling a better business climate in the CR include:

1) Reform tax policies so that businesses can retain more earnings and increase investment potential;
2) Improve the investment climate so that domestic and foreign investors will be willing to help fuel the economy; and
3) Privatize property and reform land use laws so that businesses can obtain credit and access to valuable resources.

In addition, Ukraine should encourage the development of businesses that protect the country's important natural resources by utilizing measures that facilitate environmentally sound development, such as participatory planning with local-level policymakers; zoning and other land-use mechanisms; re-allocation of existing taxes to environmental programs such as reforestation and water purification; encouraging the establishment of professional organizations and NGOs interested in environmentally sound business planning and development; and instituting integrated management plans for parks and protected areas that engage local businesses in activities aimed at protecting the natural resources on which their livelihoods rely.

Suggestions for USAID and other Donors

While not intended to be a comprehensive list of suggestions, we offer the following ideas for USAID and other donors to consider when designing activities aimed at assisting Ukraine's goals for sustainable economic development:

1) Conflict resolution activities that would facilitate a discussion among stakeholders at the local, regional, and national levels about some of the policy and institutional actions recommended in this action plan, including a workshop for environmental NGOs on how to interact with business and government leaders.

2) Assistance in the formulation of policy reform measures for environmental protection and economic growth; with Ukrainian stakeholders, assess issues of compliance vis a vis standards and laws that exist and determine how policy can be more realistic and effective. Studies from other NIS countries can be used as models.

3) USAID should stimulate usage of existing private sector loan or assistance programs that target small and medium size new businesses in Ukraine (e.g., NIS Enterprise Fund and New BizNet).

4) Roll out to other areas of Ukraine the participatory stakeholder model developed in this project (e.g., focus groups and other workshops).

5) Facilitate the transfer of technology, information, and management skills to develop environmentally sound businesses in Ukraine's private sector. Examples could include assistance for integrated approaches to parks and protected area management and sustainable wood processing facilities and practices.

6) Support the development of private sector (profit or non-profit) businesses aimed at transferring information on energy conservation and efficiency to Ukrainian business operators.

7) Support the implementation of a regional promotional office in the CR for tourism development, administered by an NGO, Peace Corp volunteer, or other non-governmental administrator. The office would facilitate an international marketing campaign to promote Ukrainian environmentally sound tourism and would work in close collaboration with government and business representatives. Training and other hands-on support could also be provided.

Tourism Strategy
for the
Ukraine Carpathians Ukraine EPAT Project

prepared by

Art Pedersen
Wildlands Recreation and Tourism Planning
700 Harris Avenue
Austin, Texas 78705
Phone 512 476-6718
Fax 512 476-6718
E-mail ADPedersen @ Aol.Com

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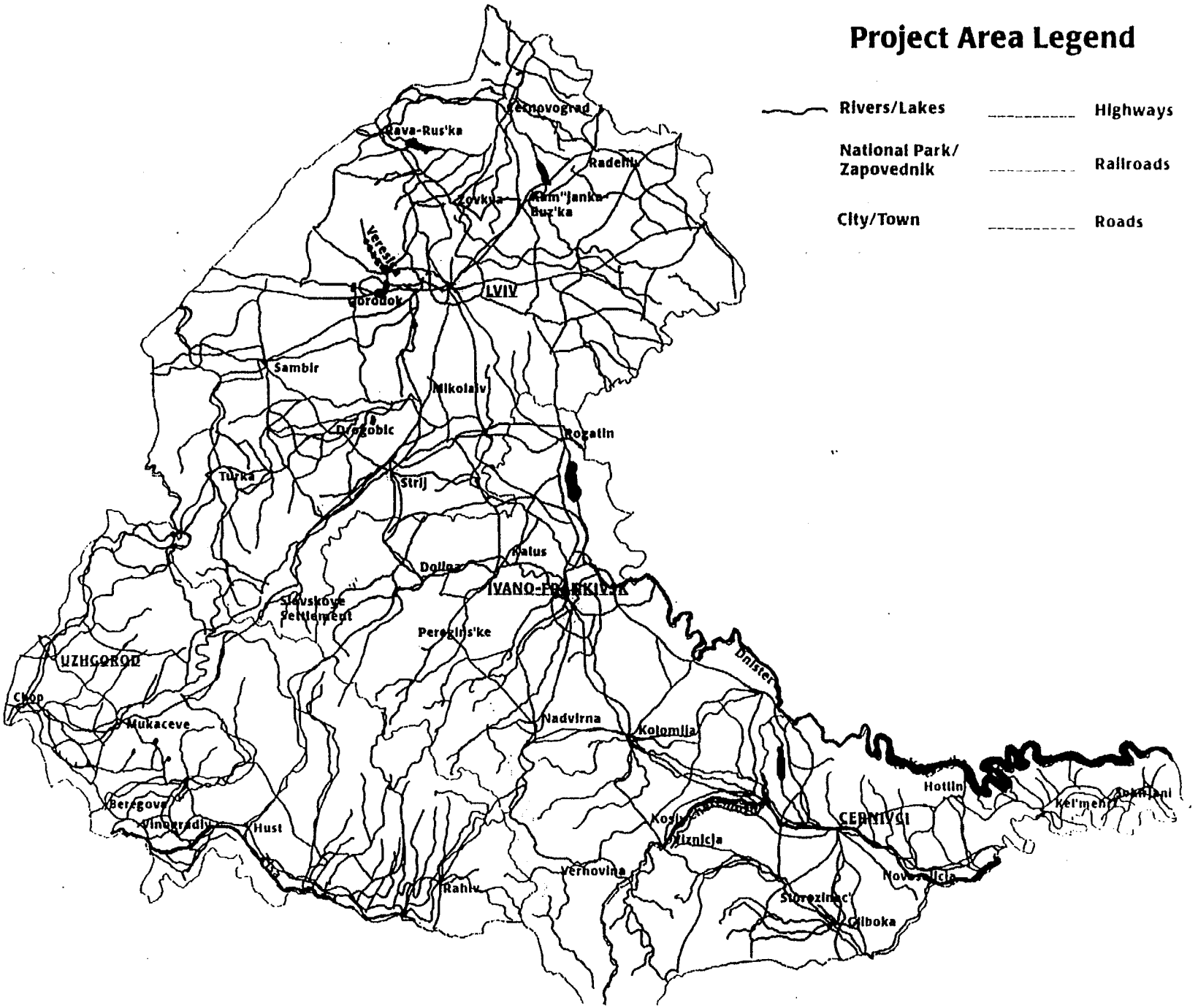
Project Area Legend
Rivers/Lakes
Highways
National Park/ Zapovednik
Railroads
City/Town
Roads
Chernovograd
Rava-Rus'ka
Radehiv
Zovkva
Kam"janka-Buz'ka
Vereshytsya
Gorodok
LVIV
Sambir
Mikolaiv
Drohobic
Rozatin
Turka
Strij
Halus
Dolina
IVANO-FRANKIVSK
Slavskove Settlement
Peregins'ke
UZHGOROD
Chop
Mukacevo
Nadvirna
Kolomija
Dnister
Hotin
Kel'menci
Beregovo
Vinogradiv
Hust
Tisa
Kosiv
Vizhnicja
CERNIVCI
Verhovina
Novoselicja
Rahiv
Storozinec'
Gilboka

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1. Introduction

1.1 Strategy Description and Goals

This strategy synthesizes project information and research on tourism into one document. It includes detailed information not found in the Needs Assessment Report (NAR) and the Carpathian Environmentally Sound Tourism and Business Action Plan (CEAP). Synthesizing the research into one document provides US (USAID), Ukrainians, and others a reference source for future project planning. In addition, it can help provide the Ukrainian State Committee for Tourism with direction for tourism promotion activities.

Time limitations did not permit all relevant information to be included in this document. Information on macro economic policy, and some of the legal and environmental conditions related to tourism development, are found in related sections of the NAR and CEAP.

1.2 The Structure of the Report

The strategy is broken down into five chapters. Chapter One provides an overview of sustainable tourism research and information. Chapter Two presents an in-depth analysis of the current tourism situation, additon to the NAR. Chapter Three presents information on market research and tourism preferences. Chapter Four presents specific business opportunities for tourism development in the Carpathian Region (CC), plus Chapter Five gives recomemndations and actions for the implementation of a Carpathian tourism strategy.

1.3 Project Research

Research in toursim carried out for the project includes:

- An analysis of national and regional tourism issues identifying constraints to businesses. Information for the analysis came from studies commissioned from Ukrainian and expatriate specialists. Issues addressed included transportation, government policies, tourist services and facilities, and regional parks and protected area's administration policies. (See NAR.)

- A survey was implemented to identify Carpathian tourist attractions having international and domestic potential. From the hundreds of tourist attractions listed in guidebooks, a shorter list was developed of high potential sites. In addition, tour operators, guides and government officials were interviewed to obtain their site and attraction recommendations. Participants at the July 1996 stakeholder meetings supplied comments on the most attractive sites and suggested solutions on marketing and policy issues. These recommendations, along with the information from consultants, are incorporated into this document.

- A ten day regional trip was conducted during June and July 1996 to gain a better overview of tourism possibilities by touring existing and potential tourism sites and meeting with representatives in the public and private sector.

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• Regional workshops provided tourism-related business ideas and policy recommendations for the CR.

• Field work was conducted in the CR to determine the market potential for crafts-related businesses.

• Marketing studies were completed for Germany-Austira, England, France, the United States-Canada, and Scandinavia. The studies attempted to identify tourism opportunities in the West to gain insight into how Ukraine could practically enter these markets. (See Appendix II.)

• Guidebooks on Ukraine and neighboring countries were examined to determine the areas of greatest interest for Western tourists, and to determine the comparative advantages of the Ukraine Carpathians in relation to the neighboring countries of Poland, Slovakia, Hungary, and Rumania.

1.4 Sustainable Tourisim

This startegy was developed within the broad parameters of the World Tourism Organization's (WTO) 1989 Hague Declaration on tourism. This declaration sets forth several principals for tourism development including integrating development with sound environmental and social planning and setting quantifiable environmental and social limits on the changes tourism causes. Of particular concern is developing activities which generate local economic benefits.

Sustainable tourism WTO guidelines include:

- having interest groups reach consensus on a vision of how tourism will be developed in an area;
- what activities will be emphasized or permitted
- reaching an agreement on tourism zones, i.e., where tourism is permitted
- reaching a consensus on the environemntal, social and economic policies and standards that will be maintained in these areas or zones. The standards are then used to develop policies, laws and regulations monitoring conditions in the zones and areas for compliance.

1.5 Types of Tourism Markets

The Ukrainian market can be broken down into four market areas, not including business travel:

(1) The Ukrainian domestic tourism market, which includes Ukrainian tourists who use the sites for vacations and recreational activities.

(2) The general international touring market, which includes those individual tourists and tour groups interested in Ukraine and Ukrainian culture but coming to the area without a specific interest in a defined activity or subject matter. These tourists tend to be more interested in general sightseeing, shopping and cultural attractions such as museums or historical sites.

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(3) The diaspora tourism market made up of those tourists having Ukrainian extraction wishing to return to their original homeland.

(4) The international specialty markets, of which nature tourism is a subset, includes those tourists coming to the region to pursue a particular interest or practice a specific activity. The effect of this trend experiencing other cultures and pursuing specific interests, has led travelers farther afield from the traditional tourist resorts. It has produced an increased segmentation of the market and a growing demand for unique and educational experiences. These markets encompass a wide range of activities and are labeled under several categories. Responding to the demand, travel companies now organize specialty tours to cater to every taste. Interest in the environment and in outdoor pursuits has spurred a number of growing market segments.

2. Tourism Development Conditions in Ukraine and the Carpathians

This chapter presents an overview of current tourism conditions in the Ukraine and the Ukraine Carpathians. It provides additional information not found in the NAR. It is intended to set the stage for justifying many of the recommended actions presented in Chapter 5.

2.1 Historical Profile

Historical information helps identify long-term tourism markets and development issues. Tourism in the Ukraine Carpathians has had a long history. Nature and cultural related tourism have traditionally been important. In 1921, the Circle of Lviv Amateurs started arranging tours of Lviv and the surrounding areas. In 1922 the Ukrainian Tourist Society Chornogora began in Stanislav (Ivano-Frankivsk) to organize walking and skiing trips. They provided members with tourist equipment, including topographic maps, and built and supervised mountain shelters. During the period of 1924-1939, Plai, an ethnographic study and tourist society, further developed Carpathian routes and mountain bases.

In addition, Chornogora issued its own magazine, and Plai published tourist route maps and travel notes by national and foreign authors. Guidebooks on the Carpathians were also published during this period. Abundant information on historic and old tourist routes exists, along with quantities of ethnographic materials.

During Soviet times, Ukrainian national tourism followed the Soviet model with the trade unions and the military establishing rest hotels and resorts for their workers and personnel. Trade union tourism, in Ukraine, controlled by Ukaprovtour, developed most rapidly; The organizations paid only 10% profits to local executive authorities and the funds were spent for road construction and the restoration of historical and cultural monuments. During this period, foreign tourism was controlled by Intourist, the Soviet monopoly managing foreign tourists and Sputnik, the organization arranging international youth tourism. Because of the material resources accumulated over the years, Ukraprovtour, Intourist, and Sputnik continue to exert a powerful force on tourism development in Ukraine.

During the 1960's and 1970's, the Carpathians became an important tourism region. By the middle 1980's 60 tourist institutions were operating and more than 800 tourist routes crossed the four Carpathian oblasts. Trade union rest hotels and resorts are still abundant in the Carpathians. In 1984, 25 volumes inventorying the attractions of the country were published.

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Four volumes of the study were published for the Carpathians, albeit with a Soviet focus; churches and religious symbols so important to Carpathian culture and architecture were omitted.

Modern Carpathian tourist activities continued to focus on culture and outdoor pursuits including recreation activities of skiing, mountain trekking, and caving. Farm tourism, which has also had a long history in the Carpathians, continued to thrive, principally in Zakarpatska and Ivano Frankivska oblasts populated by the independent and entrepreneurial Hutsul.

Relevant to tourism development is the historic and cultural ties Carpathian oblasts have with neighboring countries. After the final division of Poland in the last half of eighteenth century by Russia , Austria-Hungary and Prussia, the territory of modern Lviv, Chernivtsy, Ivano-Frankivsk and Zakarpatska oblasts became part of the Austrian-Hungarian Empire; the rest of Ukrainian land remained as part of Russia. During the Austrian-Hungarian Empire, Zakarpatska oblast was controlled by Czechoslovakia until Hungarian occupation in 1938. From 1919 to 1939, Ivano-Frankivsk and Lviv oblasts belonged to Poland. From 1918 until 1940 Chernivtsy oblast belonged to Romania. Ukraine has consistently attracted visitors for all these former empires, including all countries of the NIS, and continues to do so.

2.2 Overview of the Current Situation

In recent years, a combination of factors has resulted in a considerable reduction in the Ukrainian tourism industry. Ukraine has suffered under the weight of an economic crisis of inflation, high taxes, and a loss of spending power by the general population. Economic conditions continue to negatively effect the state of Ukraine's tourism infrastructure and the lingering image of Chernobyl is problematic.

The period of 1990-1993 was especially severe for Ukrainian tourism. Krachilo reports that the volume of domestic tourist activities decreased by a factor of four, and informal domestic tourism "excursions" by 23. The number of foreign tourists declined by 80%. Only 120,000 foreign tourist arrivals were reported in 1992.

The economic crisis has reduced the number of Ukrainians taking vacations. Although many employers continue sending their workers as part of their benefits to resorts and sanitariums, in the last few years Carpathian tourism rates have dropped to record lows. Today, because prices are cheaper and services and infrastructure better, those Ukrainians with sufficient funds now prefer to travel internationally. At Kiev trade fairs travel representatives sell packages to Cyprus, Turkey, and Western Europe; few are sold to Ukraine destinations. Of all the Ukrainian oblasts, only Lviv has tourism figures showing that the number of foreign tourists exceeds that of Ukrainian tourists going abroad.

However, a new stage in Ukrainian tourism slowly began in 1995 with the approval of the Ukrainian Tourism Law by the Supreme Rada. Currently, tourism is seen as a major economic development vehicle by Carpathian government and business leaders. It is believed that if organized correctly, tourism can serve as a complementary activity to counterbalance the effects of the existing and more extractive natural resource-based industries such as logging.

Although opinions of government officials and private business people differ, the past two years have brought some stabilization to the industry. In 1995, official statistics show an

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improvement, with the State Committee reporting the arrival of 1,875,000 foreign tourists, a figure 1.6 times greater than 1994.

2.3 Ukrainian Government Tourism Institutions

2.3.1 The Ukraine State Committee for Tourism

Duties and resources

The State Committee's duties in general involve formulating tourism policy and implementing a national marketing campaign. The Committee has a marketing department for coordinating activities at international tourism fairs and for licensing travel agencies. An advertising department is in charge of preparing for promotional materials. In addition, the Committee has a role in operating the former Intourist holdings.

The 1995 Tourism Law gave the Committee the responsibility for collecting tourism statistics. This year officials began the collection process but according to reports the statistics lack the necessary information for serious market analysis. Discussions with Lviv oblast tourism officials confirm the need for more detailed information including information on the activities and interests of tourists. A 1996 Lviv marketing study carried out by a US consultant suggested a form classifying tourists according to city of origin, purpose of travel, and length of stay.

At the oblast level, the Committee maintains representation through its own travel agencies. Because of the trend towards decentralization, agencies now have greater independence and are responsible for developing their own sales. If there is no existing oblast government tourism department these agencies also have the responsibility for issuing tourism licenses. In the past this created problems because the agencies that are both private as well as represent public undue demands on other competitive agencies wishing to obtain a license. Most oblast governments now have their own tourism department.

Current tourism development efforts

A State Committee for Tourism decree established a fund to finance tourism development efforts. Money raised through a tax on tourism firms is earmarked for Committee promotional efforts, personnel training, construction and repair of hotels, road construction, and scientific research. Many ministries have implemented similar funding arrangements.

In recent months the use of the funds by government ministries has been questioned. Both the press and the government challenged the legality of the fee and the fact that without a law to punish non- payment the degrees are ineffectual. Attempts to induce private tourism companies and hotels to pay into the fund have failed. Critics of the fund mention the lack of any concrete results from the money.

Promotional efforts include attendance at several international tourism trade fairs, the production of a video featuring Ukraine's attractions and cuisine, and ongoing contact with some five hundred foreign tour operators. The future activities and sites to be promoted by the Committee are unknown, although they are most likely the Black Sea resorts and cruise ship opportunities. In addition, State Committee representatives plan to join the World Tourism

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Organization. The German and English governments may be able to offer the Committee financial support for membership payments.

The Committee reports that in two years they will have a centralized computer system and access to the international travel system by 1999. It is unknown if this system will be used to facilitate promotional contacts or be used solely to manage arrangements for the Committee's travel operations. The Committee also plans to open tourism information offices in Bulgaria and Canada. They are now working on marketing efforts with NIS countries.

In its promotional efforts the Committee does not offer its marketing distribution outlets to small or specialty tour operators. Whether or not such promotion would be extended to these private operators is unknown. No mention was made as to whether the Committee would agree to publish and distribute information about tourism opportunities in Carpathian parks and protected areas in its advertising campaigns.

At the present time, there is no ongoing system to update, publish or distribute detailed tourism information for foreign tourists. Tourist maps and guidebooks of the region are available in English and other European languages but little detailed information exists on changing tourism conditions and opportunities. At the statekholder meeting in Yaremch, the State Committee representative endorsed the idea of a local Lviv-based printing firm to develop promotional material.

A key constraint in tourism marketing is negative international media coverage. Negative coverage mostly focuses on the Chernobyl accident and the crime rate. No mention of the Chernobyl accident with statements assuring tourists that they are safe to travel in Ukraine has been seen.

Training needs and other recommendations

Committee officials are aware of the need to expand technical capabilities. At stakeholder meetings, the Deputy Chairman of the Committee recommended additional marketing training. A 1995 World Tourism Organization study also recommends strengthening marketing capacity, specifically training in research and planning, and recruiting the services of a statistician. In addition, the report suggests that the Committee organize familiarization tours for tour operators and a marketing campaign which would include more active participation in international tourism fairs.

The National Program of Tourism Development to the Year 2005

The Committee for Tourism is completing work on a strategy entitled the *National Program of Tourism Development to the Year 2005*. The program is not yet approved by the legislature but is expected to be signed in the near future. A draft version of the program recommends policy changes, tourism development actions including infrastructure development, and the reconditioning of existing infrastructure. Krachilo reports that the program recommends the following infrastructure development or reconditioning: three international tourist hotels; 28 tourist hotel complexes; 84 hotels, motels, camping and tourist bases; four automobile enterprises; nine sleeping buildings; four club-cafes; a business center; a tourist village; a service center; four fishing, hunting and sports bases; 466 kilometers of car roads; 22 state border points. Large scale projects include hotels with up to 644 beds.

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Lviv oblast has the greatest number of the projects and Chernivitsy the second greatest number. Project development is not prioritized and details on how policies and recommendations will be implemented are not provided. A market analysis or economic justifications for the projects are not included. Krachilo points out that the fulfillment of this program is impossible without considerable foreign investment and that, due to the absence of legal and financial guaranties, chances are minimal for program completion.

The list of complementary policy and legal recommendations in the draft Program include:

- the decentralization of tourist sector management by assisting departments of tourism at the oblast and city level
- the creation of a national corporation on tourism to unite all tourism entities
- the creation of tourism industry standards, including environmental standards
- establishment of guidelines for using the national protected areas for tourism activities
- the adoption of a restaurant law and transportation service for tourism
- guidelines for the rescue service and insurance for tourists
- a tax system specifically for infrastructure improvement
- contacting international organizations and establishing international tourism offices
- improvement of relations with national and local government
- a degree outlining the responsibilities of local government in tourism
- creating a board of tourist organizations with guidelines on a fund for tourism development
- a program to devise safety provisions for tourism
- developing documents on certifying hotel and catering services
- guidelines on licensing tourism activities
- guidelines on organizing tours abroad for Ukrainian citizens
- a cooperation agreement between Ukraine the CIS and other foreign countries
- a multilateral agreement with the Black Sea Union
- legal cooperation on tourism legislation with Austria, Turkey, Spain and Germany
- assisting in the establishment of small and medium size businesses
- establishing agreed upon pricing policy
- establishing a Ukratour bank to attract tourism investment

2.3.2 The National Committee (Rada) on Tourism

The National Committee (Rada) on Tourism makes up the national tourism coordinating organization with representatives from numerous government agencies, including the Ministries of Transportation and Forestry. Mr. Naumenko, Deputy Chairman of the Committee for Tourism reports that the Committee used the Rada for coordinating the number of available railroad cars with the Ministry of Transportation.

Currently, the Council is represented by government ministries. Adding private sector representation was discussed but a mechanism to add this input, particularly small business representation, still needs to be devised. The extent of other types of coordination efforts are unknown (e.g., with parks and protected areas). Representation at the oblast and rayon level was

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reported but the real extent of cooperation is unnoted. The Rada was never mentioned during interviews with the government and the private sectors.

2.4 Other National Tourism-Related Organizations

2.4.1 Rescue Service

The national rescue service is responsible for rescue operations throughout Ukraine. There are units in the four Carpathian oblasts and units in Vorota and Yaremcha. Units are active and continue to provide information and support to outdoor tourists.

During Soviet times, the service was subsidized by the government and well equipped, but today it lacks adequate equipment, including helicopter support, radios, and medical supplies. The Director of the Kiev Tourist Club reports that after an avalanche accident this year involving school children, the rescue service was unable to effectively respond.

Regarding the structure of the organization, Anotoly Mudyan the Director of the service took issue with a statement in the NAR document that he interpreted as suggesting that the coordination of rescue services may have to be organized under the control of the national parks, private tourism resorts, and ground operators. He mentioned that the NAR gave the impression that the rescue service should be subordinated to these organizations and thereby effectively lose iits independence. In subsequent discussions, he strongly expressed the opinion that the service must be maintained as an independent organization.

2.4.2 Association of Tourists Commerical Enterprises

A new association has been formed to support the interests of commercial tourism. Information gathered on the organization indicates that it will address the issues of better defining the needs for tourism standards and statistics. The main method for advancing its agenda will be through the media. Edward Loyko, formally of Ukraprovtour, organized the association. It currently has a membership of 157 tourism firms.

2.4.3 The Rural Tourism Association

The purpose of this new association is to promote all forms of rural tourism, including farm tourism. Documents for registering the association have only recently been submitted to the Ministry of Justice. Association organizers plan to promote rural tourism opportunities through media promotion and a publication listing available rural tourism accommodations, particularly homestays on farms. They emphasize the importance of engaging rural communities in these activities, stressing the high level of rural unemployment and pointing out the tradition and experience of Carpathian communities in offering homestay accommodations. Recommended areas for rural tourism development include Kosiv, Morschin, (Lviv oblast near Truscovets), Slavaba, and Chinadiva near Muchachava.

They report having made contact with the Central and East Union for the Development of Rural Tourism in Budapest and both the Ukraine State Committee for Tourism and the Ministry of Agriculture. The two Ukrainian government groups are preparing a joint decree on rural tourism development. In addition, they recommend adding supplemental legislation to the Law on Tourism

so that it includes rural tourism policies, a legal definition on homestay tourism and rural tourism tax relief.

2.4.4 Tourism Training Centers

Several Ukrainian institutions provide tourism training. The Ukraine Institute of Tourism, founded by Ukraprovtour, trains people for that system and carries out research. The Institute of Tourism and Hotel Facilities prepares professionals for the Intourist system principally for staffing the Russ Hotel's transport and hotel services. The Kiev National University also has a course that trains tourism managers.

Comments from tourism professionals on these institutions vary but generally point out the need for strengthening the applied research capabilities of the institutes. It was suggested at the Kiev stakeholder roundtable in July 1996 to have institute representatives visit European hotels and develop coordinated exchanges of information with tourism academics in the West. In addition, there was a suggestion for a national training center in Kiev, as well as the need to unify training standards.

2.5 Profile of Tour Agencies and Operators

There are more than 1,600 licensed tourist organizations and companies in Ukraine. Krachilo reports that small private enterprises make up 72.9% of the market, Ukraprovtour 15%, Sputnik-Ukraine 2.9%, and the businesses of the Committee for Tourism 9.2%. The Committee for Tourism reports 20% of these firms are in the Carpathian mountain oblasts. Of the small tourism firms, most are involved in shopping tours to neighboring countries and have little or no business equipment or transportation capabilities.

95% percent of existing tourism firms send Ukrainians out of the country. Only two were located that specialize in the Carpathians. Both companies, Daly and Ukraprovtour are located in Kiev. There appear to be no ground operators in the region specializing in nature and cultural tourism. Other individual companies maintain private ski bases mostly at Dragobrat. In addition, shop tourism firms report that tours to Romania, Slovakia and Poland are popular.

Small firms that operate in Ukraine do so with great difficulty. Firms lack credit sources to expand business operations. Without capital, operators cannot afford high quality Western equipment and the production of cheaper Russian equipment has slowed or stopped. There is no organized system to encourage the development of tourism business contacts. Operators mention the need for foreign partners in the West to promote their activities.

Several small regional businesses are interested in developing their expertise for other markets such as walking and cultural tours. Few shop tour operators now have experience with the specialty markets and, as noted above, do not have the equipment necessary for outfitting. European and North American walking tour operators prefer to take minimum equipment and depend on ground operators to provide the bulk of their needed gear. Currently, camping equipment, such as tents, are scarce in the Ukraine and new equipment that can be found tends to be expensive and of poor quality. In addition, there is no system for training and certifying outdoor or cultural guides.

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2.6 Regional Efforts

2.6.1 Current Regional Development Initiatives

Several regional oblasts and cities have identified tourism as an important economic development activity. Zakarpatska and Lviv oblasts administrations have been active in pursuing tourism opportunities. Zakarpatska oblast tourism officials have directed their development efforts toward the sanitarium at Okoline and the ski areas in the Uz Valley north of Uzhgorod. Officials also mentioned using the Uz Valley for summer recreation including improving the valley's hiking routes to attract foreign tourists. In addition, Zakarpatska oblast tourism officials are working with Hungarian operators to market the area for tourists wishing to stay with Ukrainian-Hungarian families. Also, oblast officials wish to operate the international youth camp at Uzhgorod Castle as an oblast business.

In Zakarpatska oblast, the town of Rahiv has developed a proposal outlining a strategy to initiate the Rahiv Free Environmentally Sound Enterprise Zone. The rayon is lobbying the national Rada to adopt legislation for the Zone. Tourism is identified as the industry having the most potential and there is particular emphasis on tourism related to the area's sanitariums. Incentives for tourism development include a 50% tax break for tourism companies and no taxes charged for goods consumed in the zone.

The Lviv city government is attempting to market multinational tours. Mr. Drusak, tourism director for the city, maintains close ties to Poland and believes a market exists for three to five day tours. Because of a area's rich Jewish history, he thinks that the city and oblast offer an attraction to the Poles of Jewish decent. Lviv oblast travel companies currently attend several Polish travel fairs (e.g. Proslit). In addition, the Lviv Committee for Tourism is cooperating with neighboring countries to organize bi and multi-national tourism packages which they believe offer good regional potential.

2.6.2 Regional promotional efforts

Based on information from interviews, oblasts favor having their own decentralized promotion capability. There are many constraints. Oblast and municipal tourism departments have no current data base of foreign and domestic tour operators interested in Carpathian attractions. Regional promotion, particularly to the parks and protected areas is not yet being carried out. Regional statistics on tourism are unavailable making demand analysis, forecasting, and planning for future development difficult. In response to the new tourism law, oblasts were instructed by the Committee for Tourism to begin to collect tourism statistics. Beginning in July 1996 visitation data will be collected, mainly at customs check-points. In June 1996, in Lviv oblast, these arrangements were still in the process of development.

Several regional promotional efforts have been generated. Lviv oblast has created a Department of Entertainment, Tourism and Resorts, a section of the Oblast Economic Department. In June, it created a tourism information center which will be sponsored by private firms. As is true in most oblasts and cities, computer equipment and desktop publishing software is needed to carry out the promotional operations.

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Lviv city government actions include creation of a tourism promotion fund through a city hotel tax of 20% (a city hotel tax of ten percent is usually implemented in other Ukrainian cites). Lviv is using 30% of the funds collected from the hotel tax , and 30% of funds collected from a separate city advertising tax to support tourism activities. The money generated from these funds have paid for the production of tourism informational booklets.

The Sputnik organization has claimed that the higher hotel prices caused by the increased promotional tax has created a decline in tourism demand. They claim that several groups have canceled tours to the city because of the higher prices. It is unknown what long-term effect the tax will have on visitor demand. Because city officials have used the fund for activities other than tourism promotion the fund is now exhausted.

There have been other recent efforts to foment regional tourism promotion including a meeting of the mayors of the Carpathian cities. Discussion focused on the need to create an information data base of attractions and developing more information for the internet (Lviv has an internet web site)

Regional tourism organizations in other parts of Eastern Europe could prove to be useful examples for the Carpathians. The Danube organization successfully markets that multi-national region. The Czech Tourist Association in coordination with the Slovakia Tourism Section, despite low funding, produces regional promotional materials.

In general, promotional activities from Carpathian private enterprises consist of individual efforts. Few small and medium-size tourism businesses have outlets to promote their services. Private hotel owners report little contact with oblast administrations making confidence in a regional tourism fund difficult to generate. Responding to the need for local tourism promotion, a conglomerate of regional businessmen from seven oblasts formed the Association of Western Oblasts. Their first meeting was held in December 1994. The Association functioned for a year, but due to a lack of membership funds, ceased activities. The Association continues to exist on paper. It was reported that during the organization's active period, Intourist did not participate because control was not centered in Kiev.

The Lviv marketing study (see below) recommended the establishment of a Lviv and Western Ukrainian Tourism Association. The study points out the benefits of an association in procuring U.S. government surplus equipment. In addition, regional organizations are more likely to attract international donor support.

A May 1996 study carried out by the Lviv City Administration and an American consultant from the International Executive Service Corps outlined a city tourism development plan. The plan makes the following short-term recommendations:

- Educate city officials to the advantages of tourism development
- Implement a city tourism policy
- Develop a more equitable tax structure
- Establish funding for tourism
- Implement actions requiring minimal investment
- Implement a system that tracks visitor arrivals including their purpose of stay, city of origin, length of stay, and average daily expenditures.

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•Establish a Lviv and Western Ukraine Tourist Association

Longer term recommendations include:

Implementation of a complete tourism policy and a computerized information system to track visitor arrival statistics.

2.6.3 Regional Economic Institute Study

A major study conducted by the Regional Economic Institute in Lviv identified 22 high priority tourism development projects. Primarily, these projects involve large infrastructure development or reconditioning of older resorts. Several projects involving outdoor activities such a rafting are also included. In addition, the Carpathian Biosphere Reserve is mentioned as a priority. Neither market analysis nor business plans were carried out to determine the feasibility of the projects or investment possibilities. Costs for many of the projects are unknown. Project proposals include:

- Construction of a recreation center with an ethnographic theme in Boikivshcina in the Turka region of Lviv oblast.
- Construction of an aerial tram at the Truscovets ski resort.
- Construction of a recreation settlement on the Lviv oblast - Polish border. Suggested here are the construction of small ecoeffecient houses. Costs for the project have not been developed.
- Construction of additional recreation installations at Tissavets Ski area.
- In Zakarpatska oblast a multi-national recreation center in the town of Polonina Rina.
- The architectural plan outlines a large resort with zones of different ethnic architectural styles. Apparently the State may give the land to private firms so that they can run the concessions.
- In the Rahiv area there is a project on elite tourism. Twenty recreational sites have been identified for hunting and fishing activities.
- Bottling equipment for mineral water at Trusscovets resort. Cost is estimated at $50,000 US.
- Development of a methodology for privatization of tourism infrastructure.
- Restoration of ninety year-old narrow gage rail routes for a modern tram. Tracks would need to be restored. Several suggested areas for the reconstruction were near the Baskid National Park, a thirty kilometer stretch of the line near Turka, and near Smolodo in Ivano Frankivsk. The total cost of the activity has not been completely estimated. The Turka area was selected as a primary area because the process would not be complicated. Another recommended area is near to Ust Chorna.
- Construction of a recreational complex in the Skole area.
- Construction of an outdoor recreation complex near Rusluch.
- Development of tourist activities at Popoluska Cavern in Chernivitsy oblast.
- Construction of six international ski trails at Volovitz tourist complex.
- Modernization of the Slavska Ski area infrastructure.
- Reconstruction of the old fortress and historic city at Hotin.
- Construction of small cottages at Putyla near to Rahiv.

- Construction of three new hotels at Vizhnitsa and canoeing activities on the Cheremosh River.
- Bottling Brusnitza mineral water.
- Construction of a tourist complex at Smericka near to Saray Sambir in Lviv oblast.
- Rafting activities on the Dniester River from Halych to Hotin.
- A circular historical route at Bolekiv, the "Dovbush Rocks".
- The Carpathian Biosphere Reserve is to be developed for special recreation, including ski areas.

2.6.4 Regional organizations

The American-run, Lviv-based NGO, CIME intends to match business plans with investors. While they have not been directly dealing with tourism projects they would be interested in supporting the efforts of a viable business. The Agency for Regional Development, also based in Lviv, is an organization helping people to prepare business plans.

2.7 Investment Issues

Several issues were identified by the project's tourism investment:

Successful tourism investment depends on economic feasibility, a qualified work force, a system of adequate infrastructure, and government support for tourism investment. In addition, the legal requirements for tourism development should create a good business climate and investment security. Fiscal and indirect tax incentives must be in place. There must be a favorable attitude towards tourism by local communities.

The government must have a long-term vision of the kind of tourism that is wanted and the purpose for its development. For example, governments must decide how much support will be provided to small and medium-size businesses as opposed to large mass-tourism resorts. In addition, a decision should be made as to the image the project conveys; for example, is it a government goal to encourage projects increasing the traditional image of an area?

A constraint to tourism development is the worldwide shortage of capital in the hotel and tourism sectors. Five to ten years ago sources of capital were more readily available but because of current conditions projects being constructed in Ukraine will require significant local investment. Projects seeking international financing must identify local resources and clearly present what is required of the foreign investor.

Utilizing the resources of the US Overseas Private Investment Corporation (OPIC) may provide assistance in guaranteeing US investments. In addition, OPIC has an environmental equity fund providing funding for ecotourism projects. The World Bank's Multilateral Investment Guarantee Agency (MIGA) has conducted successful investment promotional campaigns for Jordan and Brazil, and is interested in expanding its efforts. It is reported that MIGA may have an interest in developing investment promotion workshops and campaigns for the Carpathian region.

Depending on the size of the project, projects must count on carrying out feasibility studies costing between $20,000 to $500,000 US. A mechanism to share the cost of carrying out these studies needs to be implemented so that the burden is eased on the potential investor.

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Smaller scale projects may be linked as a bundle of related projects to bring the total monetary amount requested up to the level required by international financing institutions. Several representatives from these institutions recommended linking small environmentally sustainable tourism facilities with larger hotels.

Reports indicate that in the Carpathian region older hotels in existing resort areas (e.g., Dragobrat) may be purchased for as little as $10,000 US. A local tourism expert advises investors that adding a small hotel to the existing structure is easier than building a new hotel. A key problem and expense with hotel construction is land purchase. With an existing hotel the area of land has an ownership history more difficult to legally contest. In addition, existing roads on the property eliminate another cost to the purchaser. Accurate reports on construction conditions are essential. Businessmen caution that old Soviet hotels were often constructed poorly and renovation could in many cases be more expensive than building a new hotel.

2.8 Parks and Protected Areas and Tourism Development

Ukrainian national parks are managed by MEPNS. A number of ministries and national organizations have responsibility for the management of Ukrainian nature reserves or zapovedniks, including the MEPNS, the Ministry of Agriculture, the Academy of Science, and the Ministry of Education.

Facing government cutbacks, parks and protected areas have been forced to seek independent funding for management and administrative costs. Staff at Sinivir and the Carpathian National Parks, for example, raise funds by selling lumber. All areas are interested in developing tourism to produce needed revenue. Legally, national parks have a clear mandate permitting the development of outdoor recreation. Recreation in the country's zapovedniks, in the past highly restricted, is now accepted, although it is to limited to certain zoned areas.

Tourism and outdoor recreation development in the protected areas have several limitations. Protected areas have no consistent tourism policies and face a situation with little financing available for developing and administering programs. This includes the development and implementation of concession and visitor fees. (The Carpathian National Park has started to charge a fee of two dollars U.S. per night for a campsite in a meadow below Hoverla mountain.) Rescue services in the parks are limited and trails and infrastructure are not maintained or are undeveloped (e.g., garbage disposal, sanitation systems, water). In addition, there has been little training in the planning and management of visitors (e.g., carrying capacity systems and techniques to mitigate environmental impacts). National park employees, predominantly from the Ministry of Forestry, are untrained in recreation and visitor management issues. Except for the Carpathian National Park, no tourism statistics are collected.

National parks also face opposition from local and government officials. Parks follow the European model permitting people to live and work within park boundaries but with restrictions on the use of natural resources. In the Carpathians people live on small parcels of land with little space for cultivation and limited natural resources. Opposition results from restrictions on resources such as hay for livestock and wood for heating or construction. Forestry Department officials also see cutting restrictions as a loss of many hectares of profitable wood products. In

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addition, some tourism operators and tourists see the national parks as restricting their movement and free access to natural attractions.

There are positive aspects to the current situation. Some oblast and rayon officials see the parks for their future potential economic benefits. For example, Rahiv officials see the Carpathian National Park and the Carpathian Biosphere Reserve as important attractions in the development of nature- related tourism.

Park management training may be available in neighboring countries. Ukraine, Poland, Slovakia and Hungary are members of a Carpathian Association of Protected areas. Rumania has not joined this group. The Carpathian National Park wants to send staff to the Czech Republic for training. Training in the Czech Republic, Slovakia and Poland is more advanced than in Ukraine. The Carpathian Biosphere Reserve has contact with parks in Hungary.

Because of it tourism experience, Poland's Tatra National Park is perhaps the best choice for any advance training for Ukrainian park officials. The Tatra National Park is located in the most overcrowded mountain range in Europe. In 1995 the park imposed a daily entry fee and has experience with collecting other visitor data.

Inventory of park infrastructure was not carried out, but reports and site visits indicate that there is little infrastructure specifically earmarked for outdoor recreation. An exception is a visitor center being constructed in the Carpathian Biosphere Reserve, in Rahiv. In addition to the Rahiv center, another center that would serve the Valley of the Narcissus is planned for Hurst. The Carpathian Biosphere Reserve estimates the cost of construction to be $100,000 US.

At this time, Sinivir has no plan for infrastructure development. The Director of Sinivir National Park reports a lack of funds, including insufficient funds to maintain the park's 90 km of trails. Chernivitsy Vesnitsia National Park is not yet developed for receiving visitors. The area around the park does have farms that could be used for farm tourism although farmers lack visitor management experience.

Information on protected area tourism opportunities still needs to be developed. For example, information about the Carpathian National Park is limited to a map with a few tourist routes. Sinivir National Park has an informational brochure but little information on tourist routes. Professor Yuri Zinko from Lviv University reports that there is an existing collection of regional maps with hiking and tourism routes that could be reproduced for park areas.

Coordination of promotional efforts between the tourism industry and park officials is minimal. The Director of Sinivir National Park, a major tourist attraction, reports no contact with national or oblast tourist officials. The Carpathian Biosphere Reserve has made contacts with a Hungarian company to promote the area. Actively developing contacts with tour operators to promote the protected areas is limited and outside the experience of many park mangers.

Deforestation and not tourism impacts will be the key environmental problem for sustaining tourism development in the future. There appears to be no coordination of recreation activities between the National Parks and the Ministry of Forestry and tourism activity planning at the oblast level. For example, cutting in the Slovska area has started to become a visual impediment.

2.9 Carrying capacity and monitoring tourism impacts in parks and communities

Tourism managers in parks, communities and at cultural sites need to know not only the number of visitors but also how users are affecting the natural and cultural resources of an area. A carrying capacity-monitoring program plays a key role in supplying information on the degree of tourism impacts. In addition, research has shown that tourism is a changing and an unpredictable industry. Knowing the preferences of visitors, their likes and dislikes, and travel patterns can help management take actions to guard against loss of tourism revenue.

In Ukraine, policies for managing and monitoring the environmental and social impacts of tourism in both parks and local communities still needs to be developed. This includes an understanding of environmental and social carrying capacity. Literature on the subject and programs to train planning experts at both the regional and national levels needs to be implemented. To start the process a clear planning vision of the kind of tourism that people desire must be carried out. Within the atmosphere of the current economic crisis this important step in the planning process is not being addressed by regional governments.

During the 1960's and 1970's much effort was given to coming up with a system to provide a visitor number for parks and protected areas that would safeguard the resources as well as provide recreational opportunities. The work focused on developing a carrying capacity number that would indicate when negative impacts could be expected. Results of the research showed that there are no clear and predictable relationships between the number of visitors and impact. Because numbers by themselves do not give managers the information they need to mitigate impacts, tourism specialists and scientists have taken a different approach to the problem of visitor management.

Instead of the traditional carrying capacity system, the Limits of Acceptable Change System (LAC) is now used. The LAC system is a goals-and-objectives-based system that sets limits and monitor changes. It was developed because, as was mentioned, solely number-driven carrying capacity systems failed to meet the needs of protected area managers.

The LAC process is based on determining desired environmental and social conditions and then taking actions to protect or achieve those conditions. It is assumed that some change in the natural environment will result from human use. The challenge is to define how much and what types of change are "acceptable" and to define specific limits for any changes that would degrade the conditions agreed upon. LAC and LAC-like methodologies are now the systems used for wilderness management by all U.S. land management agencies, including the U.S. Park Service, the U.S. Forest Service and the U.S. Bureau of Land Management.

2.9.1 Overview of the LAC System

There are several steps to the LAC process. Basically, they fall into the following categories:

1. Develop Opportunity Classes

These are hypothetical descriptions of outdoor experiences in different recreational settings. For example, a class may be characterized by the conditions of low interaction among users and subtle evidence of management. Often park legislation, or a mission or vision statement,

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will provide direction on the range of outdoor experiences the area should offer.

2. Zone the Area

Decisions are made on which areas of a park or tourist attraction are to be managed under what opportunity class. For example, an area near a visitor center would probably be managed to permit frequent visitor contact and would utilize direct management methods (regular contact with staff, signs, trash barrels, etc.). Rugged back country areas might be designated as pristine areas and have greatly restricted visitation, no infrastructure, and little direct visitor contact with staff.

3. Develop Indicators

Indicators are the specific variables which will be affected by use, e.g., trail conditions, noise, water quality, and solitude. In LAC, input from interest groups or stakeholders is used to help management identify the variables that are used as indicators. Indicators are then monitored to determine how they are affected by visitation.

4. Develop Measurement Standards

Standards are quantifiable guidelines for measuring indicators. Standards may vary for different opportunity classes. For example, using trail width as an indicator, the standard for an area providing a wilderness experience may be three feet, while the standard for an area designated for heavy use may be five feet.

5. Inventory Existing Conditions and Take Necessary Management Actions

An inventory of the protected area will reveal the degree to which existing conditions vary from desired conditions. For example, in an area zoned as a primitive wilderness area, if a significant amount of the trail is found to be five feet wide instead of the three foot standard, then management actions must be taken to bring the trail up to the desired standard. It should be pointed out that LAC is an ongoing process and indicators are monitored on a regular basis to track trends and changes in conditions.

2.9.2 Information on monitoring communities

Although separate monitoring programs need to be developed, the LAC system can also be used to monitor impacts in communities. The process follows the same steps mentioned above. The key differences between the monitoring programs of a protected area and a community are in the monitoring indicators that are developed for each specific concern or problem. For example, community indicators may include traffic, vandalism, economic revenue, and number of hotels constructed in a particular zone. Just as in parks and protected areas these indicators are monitored for compliance.

2.10 Transportation

While there are numerous international flights, a lack of service and logistical difficulties on domestic flights create an aura of uncertainty for foreign tour operators and individual travelers.

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Services for tourists at the domestic airport in Kiev and Lviv are limited; the airport has a waiting room but no signs are available in English or in other European languages.

The WTO report described the Lviv international airport as inadequate with no services for foreign travelers. The Lviv marketing study reports the problem of runway length for larger aircraft. It recommends inexpensive improvements to the airport by placing signs in other European languages to guide visitors. (See market studies for additional information on air travel)

International rail service links between Europe and Ukraine are well-developed. Within the Ukraine, the special night train from Kiev to Lviv is in good condition and highly recommended. (There were reports that this service has been canceled.) Obstacles to train travel include difficulty in making train reservations and purchasing rail tickets. Reasons for this are sporadically changing reservation and purchasing systems and confusing and crowded conditions at train stations and ticket booths. Railroad cars are frequently not maintained at Western standards; the Lviv Marketing Study reported that other than the special car mentioned above, passenger cars to Lviv are below Western standards. Carriages on the Lviv to Cop line are reported in poor condition. Prices for trains are expensive.

The Zakarpatska administration reports the opening of rail service from Bucharest Romania to Chop to Kositsa in Slovakia and then to Krakow in Poland. There is regular rail service from Lviv to Rahiv. There are no passenger trains for the Rumania to Ukraine connections.

Most of the main routes in the Carpathians, while not up to Western standards, are adequate. They are not as poor as is reported in guidebooks and travel bulletins. Mountain roads to some of the area's natural attractions and parks are arduous. Road signs on the highways, except at major highway junctions, are in Cyrillic making travel from the West more difficult. Fuel stations are at distances of 100 km constraining ease of travel. Service stations need to be marked on maps and any tour route descriptions should include this information. There are no commercial car rental operations in the region. The cost for a car and driver is increasing. Bus connections from Kiev to Lviv are not in service. In 1997 the autobahn from Germany will reach Uzhgorod via Slovakia and Hungary.

Of the five countries in the Carpathian Euroregion, only Ukraine requires a visa for a stay of less than 30 days. The process of obtaining a Ukrainian visa is complicated. Business or private visitors need to first obtain a letter of invitation or a tourist voucher. Ukrainian tourism professionals report Ukrainian visas as expensive and time consuming to obtain. US fees are between $50 to $120 depending on the processing time. A visa to Canada costs $80 to $100 dollars.

In comparison, Poland eliminated the visa requirement for nearly thirty countries. For US citizens, Hungary does not require a visa for stays of up to 90 days. Romania does not require a visa for stays shorter than 30 days. For stays longer than 30 days, visas may be obtained from a Romanian embassy or consulate abroad, and can be extended while in Romania at a passport office.

No NIS country citizens need a visa to Ukraine except the Baltic countries. Visas are not required for Poles, Slovak citizens, Hungarians, or Rumanians. No visa is required by Russians coming to Ukraine. There are high fees for obtaining a visa in Bela Ruse.

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Experts cite the reduction of visa requirements as a factor which can aid tourism demand. Examples of other countries, including Poland, have found this to be the case.

2.11 Accommodations

Accommodations in the region include hotels, motels, tourist centers, health resorts, and camping areas. The State Committee lists a total of 64,784 lodging beds in the country. Most of this infrastructure belongs to the State Committee, the trade unions, municipalities and Sputnik. Many state-owned hotels are now stock companies and support themselves without state subsidies. Depending on the success of the independent companies, tourists face a wide range of hotel and restaurant conditions.

A detailed inventory and analysis of visitor accommodations was not completed. The State Committee for Tourism representative in Ivano Frankivsk reports 65% of the old Soviet-style resorts are in poor condition. Reconditioning of the existing infrastructure may be costly; as was mentioned, hotels were built for the working class with lower standards of infrastructure. Low occupancy rates and a lack of capital for maintenance have resulted in the degradation of much of this infrastructure. A complete inventory on the type and condition of Carpathian accommodations is essential. The State Committee is developing a hotel rating system mirroring the one being implemented in Russia and the other CIS countries.

Without reliable data, occupancy rates are difficult to assess. WTO reports that occupancy rates do not exceed 40%. Many hotels and resorts lie empty. The Ukrainian Institute of Tourism reports that in an attempt to reduce taxes, occupancy rates are decreased by at least one third. The Lviv marketing study reports an adequate number of hotel rooms in the city to handle an increase in tourism. Domestic and diaspora tourists continue to use homestay accommodations in the Carpathians but at a much reduced number. Interviews with tourism officials indicate sufficient numbers of beds to supply current demand.

Water supply in Lviv is a major problem for hotels, bed and breakfasts and homestay accommodations. Currently a World Bank water project is attempting to mitigate the water problem in the city. Electric power and telecommunications do not appear to be problems in major Carpathian cities. Sewage disposal in the cities also appears adequate.

Reports and field experience indicate that sub-standard services continue in many hotels and resorts. The Lviv marketing study reported unfriendly or limited service, procedural or regulatory problems, problems with equipment, and inability to use credit cards and travelers' checks. Current conditions account for much of the motivation of Ukrainians to vacation in neighboring countries and, in general, both foreign and domestic tourists demand higher levels of service than now exists.

Nevertheless, there are notable exceptions. Several hotels in the region serve international clients. These include the Grand Hotel in Lviv, the Roxolana Hotel in Ivano Frankivsk, and the Uzhgorod Hotel in Uzhgorod. Others scattered throughout the region could serve as adequate accommodations for the demanding groups such as walkers. The Verkovina and Chernohora region have several old and well kept lodges for Soviet party officials. These were built because of the excellent hunting in the region. To promote these existing accommodations there needs to

adequate information linking them to a series of recommended itineraries that are promoted by the oblast tourism departments. Many of the larger hotels in the region could serve the larger tours traditionally sold by European tour operators. Tour operators generally want to use hotels of at least rooms, or space for at least a 100 people.

The Carpathian hotels with good service and comfortable accommodations report high occupancy rates, indicating potential demand for hotels of high quality. A Ukrainian firm with accommodations at Tissavets ski area reports that remodeling cabins to a more comfortable standard has resulted in high demand by Ukrainian tourists. Most tourism officials interviewed believe that foreign tourists, including wealthier Russian tourists, prefer the small and mid-size hotels like the Roxlana in Ivano Frankivsk.

There is an abundance of trade union tourism installations in the Carpathians facing an uncertain future. Low occupancy rates and a lack of capital for maintenance have resulted in the degradation of much of this infrastructure. Ukraprovtour has not constructed a hotel in five years and during the last two to three years they have not carried out repairs in their existing hotels.

2.11.1 Beds and Breakfasts, Homestays and Farm Tourism

Bed and breakfasts, homestays, and farm tourism are common in Eastern Europe and the NIS countries. Homestays have a long history in Ukraine and the Carpathians. The practice has been to accept people through family contacts; the same families come back to the home year after year.

Participants at stakeholder meetings and workshops suggested this type of accommodation has tourism potential. Marketing survey data confirms this possibility. Homestays, because of private ownership, fit well with the project goals of encouraging Ukrainians to enter business. Homestays may be one of the few options for lower income families to take a vacation.

Towns and villages in the region with a history of homestays include Dzembronya, near Hoverla, Dorah near Yaremcha, Cosmach and Shesory, near the Kosiv area, and Kosiv itself. Kosiv is particularly picturesque and has a style that would appeal to Western tourists. In addition, the surrounding area maintains aspects of traditional Carpathian culture. Old men and women can still be seen wearing traditional dress to Sunday church services.

Farm tourism refers to working farms that supplement their income by catering to the tourist trade. Farm services can include accommodations such as renting out an extra room, renovating an outbuilding for lodging, or offering a camping area. Other types of farm tourism include operating a restaurant, a small retail outlet for farm products, or offering horseback riding, fishing or hunting. The Beskid zone around the Slavaba ski area and the Kosiv area have been recommended as having good potential for this activity.

2.11.2 Health Resorts - Spas

Spas are popular with Ukrainians, Russians, and Eastern Europeans. Treatment at Ukrainian resorts is cheaper than in Poland, Hungarian and Slovakia but Ukrainian spas lack much of the required infrastructure. Interviews with tourism officials report the resorts at Svalava and Trussovets as having some of the best infrastructure in the region. Trussovets is recommended for

the Ukraine domestic market. Mosnya in the Skole area also has good potential. Ukrainian resorts face stiff competition from well-developed and promoted Hungarian resorts.

2.12 Guidebook Analysis

Guidebooks on Ukraine and neighboring countries were examined to determine the areas and activities of interest for Western tourists. The results of the analysis indicate an emphasis on cultural sites and activities. Lviv city and oblast had the greatest concentration of listed guidebook cultural attractions. Lviv is presented as most accessible for tourists from Eastern and Western Europe. The city of Uzhgorod is also important with several cultural attractions. In addition, it is called the transportation "gateway" into the highest regions of the Carpathians. The city of Chernivitsy is listed as having good architecture but travel time to the city is greater than the other principal cities. Ivano Frankivska oblast has several historic sites, including Kosiv and Kolomiya.

Little information is provided on activities other than visiting cultural sites. One guide lists hiking, river rafting, cycling, climbing and caving as the most popular Ukrainian outdoor pursuits but detailed information on these opportunities is lacking. *A Brandt Guide on Hiking in the Polish and Carpathian Mountains* lists several hiking routes but more detail information is needed both to interest individuals as well as tour operators. The guide reports good ski areas include Tissovets, and Slovska in Lviv. Other ski area listed are in Vorota, Verkovina, and Kremenski. Little information is provided on the national parks. The Carpathian State National Park is mentioned.

2.13 Survey of Carpathian Attractions

A project survey was completed to attempt to identify clusters of Carpathian tourist attractions with the greatest international and domestic potential. Key attractions were identified and categorized into natural areas, hunting areas, natural mineral springs, snow skiing areas, historical and cultural monuments, museums and entertainment facilities and folk craft centers. A second survey was also implemented at the Yaremche stakeholder meeting in an attempt to prioritize the most attractive sites.

Results of the first survey showed high potential sites not grouped into clusters but scattered across the region. Scores from the stakeholder meeting survey were close, continuing to reinforce the idea that attractive sites were disbursed throughout the region. Craft sites however, were concentrated in the Hutsul area. (See Appendix 1.)

Results from the second survey listed the prioritized natural areas from the survey to be the Carpathian National Park, the Cheremosh River, and the Botanical Gardens in Chernivitsy. Hunting and fishing areas included the Karpaty hunting area in Zakarpatska. Top mineral springs included Trussovets, Moushin, and Kvasy. Snow skiing areas having the greatest potential were Vorota, Dragobrat, Tissovets, and Slavska. Historical and cultural monuments included Uzhgorod Castle, Lviv Cathedral, and Chernovasaky State University.

Although there are many sites evenly scattered throughout the four oblasts, Lviv oblast has the largest concentration of historic sites, although Ivano Fvankivska oblast also features several such attractions. The museum at Kolomiya, the Museum of Folk Architecture and the State Theater of Opera and Ballet in Lviv were given high priorities. Folk craft centers included the

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town of Kosiv, Khust, and Vznitsia. Craft opportunities, as was mentioned, were mostly centered in the Hutsul area.

The key marketing point revealed by the survey is the fact that the region's tourism product is a series of many minor attractions of similar quality. This means that there is not really a key attraction, or a few outstanding attractions, that could be promoted to draw tourists to the area. Because of this limitation, the oblasts have more potential if they are marketed by linking numbers of diverse cultural and natural minor attractions together into a complete regional tourism product. In addition, to increase tourism interest at these moderately attractive sites, extensive information and interpretation materials will be needed. What this means for planners is an aggressive regional promotion program combined with basic but very informative interpretative materials.

2.14 The 1995 World Tourism Organization Report

The 1995 WTO report states that the potential for international tourism in Ukraine is from the specialty markets such as nature tourism, including trekking and skiing, as well as riding and hunting. The report also mentions the potential of the region's historic sites and architectural attractions. Suggested tours include Chernivitsy, famous for its architecture and tours to Lviv oblast. The report mentions the city of Lviv as one of the most beautiful in the whole country.

2.15 Carpathian Tourism Activities

A project analysis profiled activities by describing current conditions, the constraints for activity development, and listing activity areas with good potential. In this analysis, several activities are omitted. Recreation sports such as swimming and camping are considered secondary to the more major activities listed below. Activities such as major sporting events and night clubs are not included. To give an additional point of comparison, examples of major tourist destinations where these activities are popular are included.

2.15.1 The Skiing Market

Up until the current economic crisis, skiing was a major Carpathian tourism activity. Long-lasting and reliable snow conditions, some report better than the High Tatras, make Carpathian skiing popular. Peace Corps volunteers report that the slopes at Slavska compare to Piko Peak and Killington ski areas in Vermont. Slavska has approximately the same kinds of ski runs that have been developed at resorts in Poland. Zakarpatska has areas with several three kilometer downhill runs good for slalom.

Today, as in all Carpathian tourism areas, infrastructure is declining. Tourism firms report the need to upgrade ski lift equipment. Lift equipment at the major resorts is not at the same standard as in Poland and Slovakia. In addition, ski equipment at the areas is of poor quality. Renting equipment is difficult and it is old and unreliable. There are no ski rental shops in Lviv and probably none in the other major Carpathian cities. Organized transport to the areas such as organized transport to Slavska for Lviv skiers, is nonexistent. Peace Corps reports that people dislike taking the electric train from Lviv to Slavska because cars are cold and the service unreliable. The last 10km of road to Slovska is poor quality and during the winter tourists are transported on large trucks to the base of the mountain.

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Ukrainian tourist professionals report the market has the greatest opportunity from the Baltic Republics, Poland, Russia, and the Ukrainian domestic market. Ukrainian ski prices are lower than in Poland. Average prices are $15 per day for accommodations in a lodge and $30 per day for full board and the cost of the ski lift. Poland's prices are $40 per day and more. The Carpathians offer ease of access for Russian and Baltic tourists. No statistical information is available, but several travel professionals have reported that because of the lower prices young Poles and Czechs prefer the Carpathians principally Slavska. What percentage of the current Polish market that could be attracted to the Ukraine Carpathians is unknown. Several operators have mentioned that Polish firms have expressed an interest in the Chernohorva mountain area. The Slovakia market is limited because Slovakia's ski areas charge the same price or even less and have better equipment and services. Some report Carpathian skiing is twice as expensive as in Slovakia.

The 1970's and 1980's saw the construction of many large state subsidized ski resorts. Today, entrepreneurs and stock companies are building smaller ski cabins or lodges. Tourist firms report that these cabins, with a capacity for perhaps ten tourists, are regularly booked. Tourism companies involved in the projects believe these to be profitable, easier to manage, and more cost effective. For the private investor this seems to be the pattern of development for small tourism business ventures.

Tourism professionals recommended Dragobrat area near Jasina, Tissovets, Slovska, Vorota, and the Carpathian National Park including Hoverla Mountain as top ski areas. In addition, Volovitze offers some of the best mountain skiing but suffers from a lack of consistent snow cover.

2.15.2 Bicycling Market

Long mountain ridges, rural roads, and farmland provide good opportunities for mountain biking. The market is now undeveloped, mountain bikes were not seen in the region and equipment and spare parts are not available in Carpathian cities or towns. Oblast and municipal governments are not aware of this large specialty market in Europe and North America. Who would take responsibility developing, mapping and publicizing selected routes is unknown. A mountain biking program could be combined in conjunction with a farm tourism or camp area development program.

Bicycle touring on Carpathian roads is dangerous. Roads have narrow shoulders with little space for the cyclist to maneuver. Road traffic would put cyclists in danger. Ukrainian enthusiasts have mentioned this to be a major safety problem.

Classical Carpathian bicycle touring routes are well-known. If road improvements were made there would be a potential market. The Ukrainian Institute for Tourism reports that possibilities for bicycle tourism are extensive. Asked to supply examples of potential routes the Institute presented several well-established itineraries linking the entire region of the four oblasts.

2.15.3 Water Sports, Rafting, Kavaking and Canoeing Market

Carpathian rivers maintain high levels of flow for white water sports only during the spring. During this time rivers such as the Cheremosh and Prut offer class III rapids. After

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approximately May 20 the flow decreases to a Class I. White water activities in many rivers are limited because of shallow water dams, for example in Sinivir National Park. The Black Cheremosh near Verovina was a popular recreation river in the past. A hiking trip to the mountains combined with a raft trip on the river was commonly practiced. Camping is possible along the river banks. It is easily accessible from Kosiv.

More serious white water enthusiasts prefer greater challenges than are offered in the Carpathians. Most want to run wild and scenic wilderness rivers of international Class III and above. There are numerous rivers of the world considered international whitewater attractions. Examples include the Bio Bio in Chile, the Colorado and the Snake, in the US, the Tatshenshini in Alaska, the Usumasinta in Mexico, and the Pacuare in Costa Rica.

2.15.4 The Caving-Spelological Market

Caves lace the Carpathian mountain region providing a possible niche for a small specialized market. Cinderella Cave in Chernivitsy is a world famous gypsum cave and mentioned as a major attraction in several sources . The cave was also on the list of the 22 projects from the Institute of Regional Planning in Lviv. In addition, there is an interesting salt cave at Solotvinon south southwest of the Carpathian National Park. International potential for caving in the four oblasts is unknown and needs to be further investigated.

2.15.5 The Birdwatching Market

International birders are attracted by the possibility of seeing large number of endemic and migratory species distinct from those found in other countries.

With more than 350 species Ukraine has an adequate bird watching resource. Rotocha Reserve has been suggested as a possible area for this activity and for tourists interested in natural history. A German tour operator now uses the reserve for birdwatching.

For Ukraine, because it faces stiff competition, the birdwatching market would be small. Examples of popular international bird watching destinations include, the rainforests of Costa Rica, the jungles of Mexico and Ecuador for Neotropical birds, the Indonesian Archipelago, Patagonia and the Canadian Arctic.

2.15.6 The Mountaineering and Rock Climbing Market

For serious mountaineers and rock climbers, the Carpathians offer only limited possibilities. The mountains are lower than the Tatras, have small patches of permanent snow and ice, and few high rock faces. Serious climbers and international mountaineers generally want to travel to a mountain area for the chance to climb high mountains famous for challenging and/or historic routes. Examples of popular international mountaineering areas include the Himalayas, the Altai, the Pamirs, the Andes, and the Alps. Popular international rockclimbing areas include Yosemite in California and the Bugaboo Mountains in Canada.

2.15.7 The Backpacking/Trekking Market

Although having no Alp or Tatra-like qualities, the Ukrainian Carpathians are by European standards still relatively wild. Comments from tourism professionals indicate it is the wildness and traditional mountain culture of the Ukraine Carpathians that provide the comparative advantage for the region. Much of this atmosphere is due to the amount of forest cover; stands of primary forest containing large beech and pine still can be seen. In addition, alpine meadows apparently destroyed in Poland are intact in the Ukraine Carpathians. Older people still can be seen wearing traditional dress.

Also, there are also many walking routes in the Carpathians that link the entire chain. Before World War II well known and popular walking routes existed between the Ukraine and its neighbors. Gun emplacements sometimes hundreds of years old can be seen on the ridge lines in the mountains of Zakarpatska.

An additional advantage is that tours in Ukraine can be competitive and cheaper than in neighboring countries. One of the few private operators in the Carpathians mentioned a $25 US per person per night price for a Kiev, Rahiv, Hoverla tour package. This did not include the price of the train tickets.

Constraints to the market include unmaintained and unmarked trails, poor condition of mountain refuges, and a lack of maps. There is no guide detailing planned routes and linking the routes with adequate accommodations. The condition of the walking routes in 1993 was adequate but because of a lack of maintenance there is a high probability that due to the current economic crisis their condition has deteriorated. Mountain shelters exist, however most are primitive and used by herdsmen. The chief of the Rescue Service confirms that the condition of most of the mountain refuges is poor. In the past, the Poles had built very good mountain refuges but today only the foundations of these structures remain. Trail systems along hiking routes are signed but not signed in English and other European languages. During Soviet times detailed maps were officially prohibited. Serious walkers and mountaineers obtained old Polish maps and even made their own or obtained "secret" military maps. Maps and trail markings would need to be developed.

In Soviet times Volovets is one of the hiking centers in the Carpathians. Another hiking center is Verhovina, in Zakarpatska. Jacina, Lazescina, Krasi are at the start of popular tourist routes to Hoverla Mountain, the highest mountain in the Ukraine Carpathians. The Carpathian Biosphere reserve is an important attraction. Kosiv to Verhovina is on a beautiful mountain route. The Chornagora Massif including the Cheremosh River has good potential for walking and seasonal water sports. Rotocha reserve is developing and the project has won a Rolex award for conservation. An international Transcarpathian walking route has been suggested. The logistics of border crossings still need to be worked out among the various government.

2.15.8 The Hunting and Sport Fishing Market.

Little information was found on the hunting market. The Ministry of Forestry controls hunting activity in the Carpathian region and it is unknown how many tours are sold each year. There is a high probability that the activity is unregulated and that hunters with sufficient funds would have unrestricted opportunities. Hunting lodges used by the Soviet party elite may have

some potential as tourism accommodation. Many tend to be isolated and only one was seen during the June and July field trip.

There is considerable interest in organized hunting trips. The National Sputnik firm in Kiev together with an Austrian group tried to organize hunting tours but were stopped by the Ministry of Forestry. In Lviv oblast, the Assistant Representative for the State Committee for Tourism reported his organization is interested in hunting programs.

Little information was collected on sport fishing activities. Damming of most of the regions rivers has apparently impeded the reproduction of trout. In interviews with tourism professionals no one mentioned the potential of this sport. It is probable that the potential for fishing as a tourist activity is low. Competition from Western Europe and Russia would be great. A good fishing area offers the angler a chance to catch a large size trophy fish, or a great number of fish in a short amount of time. Examples of areas that attract an international sport fishing industry are the Sea of Cortez for marlin, the Florida Keys for bonefish, and Montana for trout. It is unknown what the conditions are for stocking trout in Carpathian rivers and streams.

2.15.9 The Historical And Cultural Tourism Market

One of the comparative advantages that Ukraine has over its neighbors Poland, Slovakia and Hungary is that traditional forms of life continue to be preserved. This can be seen around the villages of the Carpathian National Park where traditional dress and farming practices continue to be maintained. Kosiv is also an attractive cultural center.

In addition, for historic tourism, the Carpathians have an array of minor attractions including cultural and national monuments, historic buildings, districts and towns, important religious buildings such as churches, synagogues, temples and monasteries, and places of historic events such as battlefields. In comparison, the region has no one major attraction that would generate a tourism market by itself (e.g., Stonehenge, MachuPichu, Angkor Wat in Cambodia, the Taj Majal, and the Greek and Roman monuments in the Mediterranean). As was mentioned previously this situation was identified in the survey of attractions and needs to be considered when developing a regional marketing plan.

Constraints include the fact that most key attractions are in deteriorating conditions and without interpretive programs or adequate information. Muchacheva Castle for example, is being renovated but because of a lack of capital the process is slow. The Lviv marketing report states that tourist attractions are in various states of repair from lying idle, needing repair and restoration, to be fully operative but not capitalizing on potential for generating income. Attractions only provide information in Ukrainian.

2.15.10 Wildlife Viewing and Photography Market

This activity involves traveling to a specific natural destination for the purpose of viewing or photographing wildlife considered "exotic" or unusual by the tourist. Examples of popular destinations include visits to the famous game parks of Africa, game parks in what remains of habitat of India and Nepal, the Galapagos Islands off the coast of Ecuador, polar bear viewing in Canada, gorilla viewing in Rwanda and parts of Zaire.

While the Carpathians have considerable populations of wolf, bear and deer, large numbers of tourists coming to the area to solely practice this activity is doubtful. Competition from other areas and the areas of Northern Scandinavia and Russia is great, and these areas are wilder and more biologically diverse than the Carpathians.

2.15.11 Earthwatch-Style Scientific Tourism Market

The opportunity to volunteer to assist in the projects with Ukrainian scientists and researchers has some potential. Projects are usually connected to natural and cultural history kinds of research, e.g., archeology, research on an interesting species of wildlife etc. Examples of projects that are offered by Earthwatch and similar companies include: studying endangered Quetzals (a neotropical bird) in the Chiapan highlands of Mexico, studying and marking endangered Ridley turtles on Costa Rica's Atlantic coast, studying primates in jungle areas, and archeological digs all over the world.

Because of its wildness, rich culture and relative stability, the Carpathian region could begin to attract this small but growing market segment. Parks and protected areas and local museums would stand the most to benefit by coordination with Western companies specializing in this market. While no doubt limited in numbers, attracting this type of tourist helps to enrich the idea of the area as a cultural and biologically important resource.

2.16 Supplementary Conclusions from Project Findings

The following chapter offers a list of supplementary conclusions based on the information presented in this chapter. It is intended to help set the stage for the business opportunities presented in Chapter 5 and the recommended actions presented in Chapter 6.

2.16.1 National Development and Marketing Issues

There is no clear vision of Ukrainian national tourism. Policies and tourism development appear to lack a consistent theme and direction. Until goals and objectives are determined, the industry will be in danger of drifting from one development policy to another and delaying a unified investment promotion strategy.

While the Committee for Tourism is aware of the emerging specialty markets, and in theory endorses their development, there appears to be no strategy to develop the sector. Specialty travel markets appear to have good potential for Ukraine but there is no funding available to carry out actions to implement national pecialty travel programs. The idea of tourism linked to the country's parks and protected areas does not seem to be a priority issue at this time. At the national level, slow development of the specialty travel sectors, e.g., ecotourism, may postpone Ukraine's entry into a market where it may hold considerable comparative advantage.

Without government support for reliable international and domestic promotional outlets, delays will occur in the development of small and medium-size tourism businesses. The Committee for Tourism could provide a useful promotional outlet for these businesses and promote the Carpathian region's comparative advantage in specialty markets. Attendance at international trade fairs is the perfect outlet to distribute materials on opportunities in the Carpathians. As its

research capacity develops, shared marketing information with regional entrepreneurs would increase their success rate.

Training needs in market research and statistical methods are clearly evident. The need for additional tourism market research was reflected in the interviews conducted with Committee for Tourism representatives for this project. Without better data, particularly on tourist expenditure and preferences, marketing and investment promotion will suffer.

The Committee's tourism development plans focus on large infrastructure development but based on current conditions smaller projects are more realistic. The Committee's 2005 development plan lists many projects involving large capital outlays. Market research studies to forecast the potential of these developments are needed. Low current occupancy rates do not justify large resort hotels; information gathered indicates a trend for smaller hotels.

Until promotional efforts paint a more balanced view of Ukraine, Ukraine's tourism efforts will be limited. Press articles about the country focus on crime and the Chernobyl accident. Promotional efforts dispelling the myth that Ukraine is dangerous would help to change this image. Currently, very little is being done to assure people that travel to the country is safe. In addition, Ukraine is still relatively unknown to Western tourist organizations and simple promotion to educate tourist professionals about Ukraine's opportunities is crucial.

Without private sector involvement the efforts of the National Committee (Rada) on Tourism will be seen as only serving the self-interest of the State Committee for Tourism. Although there is no private enterprise representative on the Committee at this time, most tourism professional are aware of this need.

Because of the importance of outdoor pursuits in the Carpathian region, national government support for the country's Rescue Service will enhance the attractiveness of these specialty activities. Working independently but in conjunction with the parks and protected areas, this organization can aid in the development of nature-related tourism.

Without the improved capabilities of the Ukrainian tourism training centers and universities, the Committee for Tourism will be limited in its ability to carry out necessary research. As tourism develops, the Committee for Tourism will need an extended research capability (e.g., research in economic and marketing analysis). Training centers and universities with tourism programs can supply these needed research capabilities in an efficient and inexpensive manner.

Providing support for an organization promoting rural tourism development will be an important. Carpathian regional economic development partner. Farm tourism and rural homestays have been identified as an important tourism market.

Without a complete analysis of the availability of tourist facilities in the Carpathian oblasts the Committee for Tourism will have no clear idea of the realistic condition of hotel supply. This needs to be evaluated based on the markets that wish to be pursued. For example, the number of beds that exist for the high end ski market or the condition of mountain refuges. This last point is important in planning hiking routes between points of accommodation.

2.16.2 Regional Development and Marketing Issues

Because the region has many minor attractions of similar quality, the region has more potential if it markets and plans itineraries by selling the image of a region with diverse cultural and natural attractions. A strong regional promotional campaign is recommended in conjunction with the production of extensive interpretive information on the sites. There is a great deal of historical information on the Carpathians that could be utilized for the development of modern promotional and interpretation materials. Historic information on routes and Carpathian culture can provide a rich resource for those involved in this work.

Regional promotional efforts are constrained by self-interest. While a regional promotional organization would be a cost effective way to produce and distribute promotional material, domestically and internationally, oblast interests will prevent cooperation. Oblasts and individual cities and towns acting on their own without a coordinated development or promotional effort can create a situation leading to competing efforts, user conflicts, and inefficient use of scarce resources. Outside efforts are needed to start the regional promotional efforts at this time.

Regional and local governments do not have a well developed concept of what is required to compete in the foreign tourism markets. Communities have varying degrees of tourism potential for the foreign specialty activities, e.g., ecotourism. To make accurate development decisions, communities like Rahiv need to have greater knowledge of the current tourism markets.

As with national plans, regional development plans emphasize large unrealistic infrastructure development. Large projects are being emphasized by the Regional Economic Institute without the benefit of feasibility studies.

Without active participation and cooperation between local tourism interests and parks and protected areas, delays will result in meeting the regions full tourism potential. Regional promotion to the parks and protected areas would increase the attractiveness of the various oblasts. Other countries have shown that the maintenance of parks and protected areas can add to the attractiveness of a tourism destination.

The scarcity of ground operators in the Carpathians who could assist Western travel firms will limit future tourism development. Existing local tour operators are motivated and could readily enter the specialty travel markets. Some training would be essential to familiarize operators with the needs of specialty travel markets They would have to have specific regulations and training in environmentally sound tourism management techniques.

For the short-term, the cities of Lviv and Uzhgorod offer the best possibilities for renewing vitality in the tourism market. Lviv oblast has made great efforts in developing a tourism base connected to the city and the oblast. Lviv oblast has been active in taking a broad outlook on the development of regional and cross border tourism. Guidebooks report that Lviv has an array of cultural attractions. Uzhgorod is developing gateway city into the heart of Zakarpatska.

Nature and cultural tourism have traditionally been important to the Carpathian oblasts. Popular outdoor recreation activities include skiing, mountain trekking, and caving. Farm also has a long hisotry in the Carpathian Mountains; the independent and entrepreneurial Hutsul population has a tradition of accommodating outside visitors. Areas having the greatest potential for

developing these markets include the Lviv and Uzhgorod areas, the area around the town of Kosiv, and the areas of the Carpathian National Park and Carpathian Biosphere Reserve.

For Ukrainian domestic tourism and the Russian, Baltic and Polish markets, tourism opportunities exist for ski vacations. Small ski lodges are popular.

Earthwatch-type vacations also may hold some potential for the region, if they are connected to an interesting cultural, historical or natural history project.

2.16.3 Parks and Protected Areas and Tourism

Without the help of private tourism interests, financing for park infrastructure may be delayed. Public tourism interests related to parks and protected areas may provide a large degree of support for these natural areas through concession agreements.

Without plans detailing how tourism will be developed, the parks will have no clear reference point to guide park-related tourism development and activities. Without a broader and more coordinated effort to determine the kinds of tourism that will be permitted in the parks and protected areas managers will be limited in taking a proactive stance toward tourism development.

A lack of funding for training in visitor management parks and zapovednik staff will limit development of needed tourism management skills. While there has been some training for parks and protected area personnel, there has been little training in the planning and management of visitors, for example, carrying capacity systems and techniques to mitigate environmental impacts.

Without its own promotional campaign the MEPNS will lose desired tourism revenues. For assistance with the specialty markets, government support through the Committee for Tourism seems unlikely. Although the Committee may distribute protected area promotional material at trade shows, it could not be counted on for other promotional efforts.

Unless there is more wide scale planning for integrating forestry with recreation and tourism interests, conflict between these two industries will result. Government programs to support and develop outdoor recreation and nature tourism is in direct conflict with the forestry industry. If integrated planning is not carried out opportunities for the development of tourism will be lost.

2.16.4 Planning and Monitoring Issues

Without training in carrying capacity and monitoring at the parks and protected areas level and the community level, there will be continued misunderstanding of these important and useful concepts. There are clear misunderstanding in planning for tourism and the related carrying capacity and monitoring issues. Experience gained in the West and countries such as Poland can provide easy access to the new research.

The lack of long-term polices and practices to address environmental, social and economic impacts will impede the development of tourism. Essential to sustainable tourism is establishing from the beginning a vision and goals and objectives consistent with that image.

At the community level a clear planning vision of the kind of tourism that people desire has not been carried out.

2.16.5 Transportation Issues

Simple, inexpensive actions can be taken to increase the attractiveness of Ukraine's transportation infrastructure. With little effort and expense, multi-lingual signs at key transport hubs can be installed. More efficient reservation systems can be implemented. In addition, route descriptions for cars with accompanying maps describing the location of fuel stops and hotels can easily be produced.

Without linkages between the tourism industry and those government agencies providing transportation services, tourism development will be delayed. Knowledge of tourism planning priorities and visitor preferences may provide direction for the transportation agencies in their maintenance and development operations. For example, the identification of important tourism areas can give direction to those departments concerned with road maintenance. Without the possibility of financial gain from tourism, transportation agencies will be reluctant to take active measures to cooperate with regional tourism initiatives. Visitor preference data could enable tourism officials to motivate the transportation department to take actions on improvements, leading to increases in visitor demand and larger transportation budgets.

2.16.6 Accommodations

Without a complete inventory of Carpathian accommodations national and regional governments will have an unrealistic view of regional strength and weakness. It will limit their ability to plan short-term itineraries. A survey of hotels needs to be carried out matching the preferences of targeted markets. A separate study listing the number of hotels which would serve particular market segments is needed.

Without capital for establishing small and medium size hotels and guest houses, tourism will be delayed in the region. An option taken by private tourism agencies in other Eastern European countries like Bulgaria is the financing of guest houses in local villages; Ukrainian tax codes may impede this option.

Domestic and diaspora tourists may provide a market for homestay accommodations if infrastructure and tax conditions improve.

Neighboring countries have had increases in tourism by easing visa requirements. Taking actions to liberalize visa requirements would be a positive action to increase Ukraine's tourism demand.

3. Market Preferences and Tourism Demand

Information in this section outlines the current international and domestic travel markets and the preferences of tourists and tour operators.

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3.1 Tourism Statistics and Current Demand

The main tourist suppliers for Ukraine in 1995 were Russia, the NIS countries, Poland, Hungary, the US, and Germany. These countries accounted for more than 50% of the foreign tourists visiting Ukraine. Group tourism accounts for 68% of total tourist numbers including cruise ship groups. Cruise ship tourism has attracted international attention and cruises along Dinner and Black Sea are moderately popular. The analysis of statistical data shows that the most popular regions for foreign tourists are Crimea, Kiev, Lviv and Odessa oblasts. Western nations continue to favor organized package vacations to the Black Sea and Crimea.

Compared with its competitors, tourism in Ukraine is not very vigorous. There have been some positive signs in recent years. During the 1992 to 1995 period Ukraine experienced an increase in the number of arrivals. In addition, Ukraine's market share improved slightly in comparison to its competitors from .010 to 012. Its dollar values of tourists receipts also increased while the two major competitors, Poland and Slovakia lost market shares of receipts.

Based on a figure from the WTO, Ukraine received $236 million US of tourism receipts in 1995. Similar economic impact studies indicate it is reasonable to assume that that for every dollar spent another $.75 to $1.00 of additional income will be generated. Using one dollar as a multiplier, in 1995 the Ukraine economy benefited from about 472 million dollars of tourism expenditures. If the four oblast study area which makes up about twelve percent of Ukraine's population receives twelve percent of the tourist expenditures, in 1995 tourism generated approximately 29 million dollars. If the $2 dollar multiplier is used, then 29 X 2 = 58 million dollars of tourism expenditures occurred in the region.

In addition, a 1996 WTO report notes that Ukraine receives $4 per capita in tourism receipts or $298 per tourist arrival. On average, with the multiplier, each new arrival can be expected to generate 298 X 2 = $596 into the economy that would not have otherwise been made. Ukraine Gross Domestic Product (GDP) per capita is $680 and the official average wage in March 1996 was $66.7 US. This means that each foreign visitor on average is contributing about (596/680) = 87% of the Ukraine GDP per capita or one additional tourist arrival is equivalent to 596 /66.7 or 8.94 person months of employment.

Lviv and Zakarpatska receive by far the greatest numbers of foreign tourists. In 1995, Lviv received the largest number. Statistics are highly unpredictable, varied and confusing. The State Committee of Tourism in Lviv calculated from the statistics collected from all the companies reporting in to the Committee that there were 215,000 tourists to Lviv oblast in which 18,000 of these were foreign tourists. They report that a sum of 430 billion coupons were received in the hotels. As was previously mentioned, of the all Ukrainian oblasts, only Lviv has tourism figures showing that the number of foreign tourists exceeds that of Ukrainian tourists going abroad.

Research from the Ukrainian Institute of Tourism report Lviv received 342,800 tourists, Zakarpatska, 336,100 Chernivitsy 97,200, and Ivano Frankivsk 63,600 tourists. The Institute estimates that 839,700 tourists arrived in the Carpathian region in 1995. The WTO estimates that that in 1995 the number of tourist arrivals into Ukraine was 794,000. It is hard to determine which number is correct. To further confuse the issue, the newspaper *Gazeta* in a June 11, 1996 article reported that Lviv oblast served 235,000 tourists in 1995 and 90,000 for the first half of 1996. 1995 figures were not reported for Zakarpatska but a figure of 9201 tourist was provided for the

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first half of 1996. Chernivtsy is reported to have had 1,868 and 1,842 in the first half of 1996. Nothing was reported for Ivano Frankivsk. To summarize, the Institute's total number of tourists is 43% higher for Lviv oblast than the newspaper reports.

With the current state of data collection putting credence in these figures would be premature. It should be pointed out that the Institute made a concerted effort to collect data on actual tourists. As a point of comparison, if tourist arrivals to the Carpathians approached 800,000 in 1995 and using the WTO number of $298 of receipts per tourist arrival, then the region experienced $238 million of receipts without any multiplier.

An original study objective was to attempt to predict tourism demand through the use of a gravity model. The model was selected because consultants realized early on the current state of the Ukraine's data base. Because of the varied Ukrainian statistical data and a reluctance of tour operators and airlines to share confidential data completing the model was not possible. Some estimates can be made to illustrate possible economic impacts. If it is estimated that 12% of Ukraine's 794,000 tourists spend at least one tourist day in the Carpathian region, there would be 95,280 visitor days. If it is assumed that through infrastructure development and marketing efforts that this number can increase by 10% per year for the next ten years, a total of 258,998 visitor days would be generated. Since each visitor can be expected to generate $298, at the end of ten years the Carpathian region would be expected to receive more than $77 million annually in foreign tourist receipts. If the multiplier is used, it can be estimated that the tourist industry would generate 77 x 2 = $154 million worth of economic activity on an annual basis. This injection of money while not solving the region's economic problems, would certainly improve the economic picture.

3.2 Country Tourism Market Profiles

Market studies of the German-Austrian, French, Scandinavian, English, and US and Canada markets were commissioned for the project. Market studies for Russia, the Baltic States, Poland, Slovakia, Hungary, Rumania, were not carried out. Information on tourist preferences and patterns for these countries was obtained in interviews with Ukrainian

For the Western countries information was gathered from tour operators. Tour operators are the most prominent vehicle and the driving force of European tourism . In North American tour operators play a significant role in organizing trip to overseas destinations.

3.2.1 The Russian and CIS Markets

The State Committee reports 1.5 million Russian tourists in 1995. Most Russian summer tourism is to the Crimea. In 1996 air travel to Ukraine became more expensive, thereby decreasing Russian visitation. The Ukraine Institute of Tourism concludes about 112,000 Russian tourists visited the four Carpathian regions.

Russian summer visitation in the Carpathians, the second most popular destination after Crimea, is greatest in August and September. The principal activities include outdoor recreation, and gathering berries and mushrooms. The director of Sputnik (in Kiev) believes that Russia has more interest in the Carpathians than do Ukrainians. He mentioned the relative comfort in the Carpathians as compared to the Urals. In addition, the distance to Lake Baikal and the Baikal mountains (another popular Russian destination) is long and expensive.

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In the winter (mostly January and February), Russians come to the Carpathians to ski -- Slovska and Vorota are the two favorite areas. The Ukraine Tourism Institute reports that summer Russian tourists are from northern Russia and winter ski tourists are from Moscow and St. Petersburg. Several operators mentioned the potential of the Russian ski market. They cite conflicts in the Caucuses and Russian familiarity with the Carpathian region as major reasons for this potential.

Preliminary information from interviews suggest that Russians, Belo Russians, and other CIS countries like white water sports on the Black Cheremosh and Prut River. In the past, summer Russian visitors went to Yaremcha, Mucacheva, Slavaba, Uzhgorod and Rahiv. Many of them visited Carpathian sanitariums such as Trussovets. Visitation to these spas has been greatly reduced. Journal articles indicate that Russian tourists will in the future prefer small family-style hotels. Upper middle class Russian tourists stay at the Roxalana Hotel in Ivano Frankivsk.

The WTO report states that with regard to CIS countries the purpose of their travel to the Ukraine is to visit friends or relations. The Institute of Tourism in Kiev reports 80% of tourists from Moldovia go to Odessa and, in autumn, many come to the Carpathians to pick berries.

3.2.2 The Baltic Markets

Little information was found on the Baltic markets. Many residents of the Baltic Republics visit relatives in the Ukraine. In winter, people from the Baltic regions enjoy cross-country skiing. In the summer, some participate in outdoor activities in the Carpathians. One tour operator with Carpathian extensively reported that Baltic tourists visit the caves in Ternophy north of Chernivitsy. The potential of this market is unknown.

3.2.3 The Polish, Slavik, Romanian and Czech Markets

Because of the area's long tradition of Polish rule, Poles share a natural link to Lviv oblast and make up a large group of its visitors. In addition, Carpathian skiing opportunities attract Poles because of cheaper ski area rates. Poles of Jewish decent also visit the area. Although no survey data was obtained, interviews with Polish walkers indicated an attraction to the wilder and less populated Ukraine Carpathians. They report that the Polish side of this region is more industrialized and the Tatras are overcrowded.

Young Czechs prefer the Carpathians because of the lower prices; for skiing they principally go to Slavska. Czechs have an historic connection to Zakarpatska. Czech walking clubs frequently visit the area. It is unknown as to the extent of this market but it appears to offer some potential. The Slovakia ski market is limited because Slovakia has their own ski areas with better equipment and services at less or about the same price. No information was found on the Slovakian walking market or other tourist preferences.

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3.2.4 The German and Austrian Markets

Overview

The Carpathians are relatively unknown to German speaking mountain tourists in which German tourists are mostly interested in the Crimea. Much of the movement of Germans and Austrians to Ukraine is for business.

Only three operators offer tours to Western Ukraine. The purpose of one of the tours (DNV Tours) is bird watching, natural history and a wilderness experience. Rostocha Zapovednik in Lviv oblast is visited for the bird watching portion of the tour; a second tour emphasized culture; and a third permitted Germans of Jewish backgrounds to meet their counterparts in Western Ukraine. No skiing, fishing, trekking, hiking, camping, kayaking, or river rafting are being offered. The charges for the tours (on average $1,300) is 30 to 50% cheaper than for similar tours to Russia, the Baltic countries, Greece and the South of Spain.

No problems were reported with the tours. Money exchange, medical service, communications, laundry, local transport, and security were judged as average to excellent. Food and border crossings were not a problem, and visa fees have been reduced to $30 US when the visa is arranged by a professional tour operator. The fee is reported as substantially higher for individuals.

Lufthansa operates a daily flight between Frankfurt and Kiev. Because of the rate of business travel, agencies report difficulty in getting Frankfurt to Kiev seating. Ukraine International Airlines operates five weekly flights between Kiev and Frankfurt in which two are often via Lviv. Other connections are via Warsaw and Moscow.

Problems

There is a perceived lack of attractions and widespread lack of information about the country. There is a perception that Ukraine is still not an independent country; the German market continues to tie it to Russia. The Ukraine is reported to be one of the least known countries to the general German public. Tourist information on the region is limited and there is only one German guidebook that features the Ukraine. Additionally, there is a lack of media coverage on Ukraine tourism. In the three main German weekly magazines during the last twelve months, there have been only five articles referring to tourism out of a total of 233. In the main newspapers, there have been only five articles out of 846. In these articles, Kiev and visits connected to helping Chernobyl victims were reported. There has been negative publicity about personal security in Kiev and the Krim Peninsula. Articles also report hotel rooms are in poor condition.

Competition and Comparative Advantage

The Czech Republic, Hungary and Poland receive the biggest influx of German tourists. Slovakia alos receives an influx of German tourists but the numbers are much lower. The region of the high Tatra in Poland and Slovakia is the best known. In Slovakia, German tourism is concentrated in Poprad which is in the north-central part of the county and far from the Ukrainian boarder.

At the present, there is no substantial organized German tourism to the Tatras, and only 1,000 organized Germans tour the Tatras each year. In addition, 30,000 individual tourists, usually from the former East Germany, visit the High Tatra area. Austria remains the most popular mountain destination for Germans.

Recommendations

Recommendations include:

- developing accommodations in Lviv and Zakarpatska
- walking tours in combination with other outdoor activities and day tours in Lviv
- develop entertainment connected to folklore ceremonies
- production of a tourist guidebook as well as other promotional materials, including pamphlets and brochures
- press trips and familiarization tours
- organization of a meeting of Ukraine operators and foreign tour operators
- opening a tourism office in centrally located Germany.

For the short term, tours to World War Two battlefields and roots tours to visit Ukrainian-German villages offer a limited but possible market.

3.2.5 The United States and Canadian Markets*Overview*

Tour operators have a romantic perception of the Carpathians as a region where local people are unaffected by modernization. They consider it one of the only mountainous areas in Central Europe that is still unaffected by development. They report a rich ethnic heritage. Many towns have cultural and ethnic functions as part of their daily life. Local festivals remain unaffected by commercialism and traditional attire is worn. (The Saturday Kosiv crafts market, an hour from Ivano Frankivsk, is reported excellent.) Tour operators report Lviv and the surrounding area can compare favorably to any other region in East Europe. While almost no tours include nature-related activities, almost all include cultural activities -- opera, art galleries, crafts, museums, folk dancing, and music festivals. It was noted that, in the summer, most music halls are closed.

Most US and Canadian tourists traveling to the Ukraine are of Ukrainian heritage or connected in some way by personal history or family. Most travelers are over fifty, often retired and often returning to visit family or grave sites. Income levels appear to be middle and lower middle class. Many travelers are repeat travelers and single.

In Ukraine, some cultural tours visit Yaremcha and Kolomiya in which most tours are between 14 and 18 days. (In-country travel is by bus.) While most commented that the Ukraine was relatively safe, there was an acknowledgment that petty crime exists. There are virtually no opportunities to spend money on entertainment that are not already pre-paid. Except for Russia, most tours visiting the four competitive countries do not include access to the Ukraine. It is difficult to find tour operators and tours focusing on the four oblasts.

The Ukrainian specialty market on tourism is not well represented among North American tour operators. There is little indication of these specialty tours being offered to the Ukraine. *The*

Specialty Travel Index, which describes tour operators by destination, lists five tour operators for Ukraine. Of the five for the Ukraine, one provides horseback riding tours, another exclusively provides cruises, and the others provide diaspora tours. In comparison, nine operators are listed for Poland, two for Slovakia, three for Romania, and 22 for Hungary. Tours in cycling, walking, hiking, diving, hunting, horseback riding, visiting national parks, water sports and spa vacations are listed for the four competitive nations.

Lviv is considered a good starting point for a tour, as many diaspora travelers come from this region and want to reutrn to see family or grave sites and a tour of the country. The only direct flight from North America to the Ukraine is a once-a-week Thursday flight on Air Ukraine from Chicago to Lviv. From other cities, it has not been easy to start in Lviv, except by flying to Paris.

Most travelers from the US use Western Europe cities as gateways into Kiev. Both Chicago and New York offer daily flights to Warsaw with the Polish national carrier LOT. Timing flight arrivals in the European gateway city takes coordination as flights to Kiev and Lviv are infrequent. Directly from the USA, Delta and Malev offer daily service to Budapest, but nothing directly to Kiev. It should be noted that LOT and BA both fly non-stop from London to Krakow which is a gateway in the Carpathian region.

From Canada, the best option is to depart via Toronto, Vancouver or Montreal to either London or Amsterdam. For Canadian travelers, American carriers can be used but doing so forces Canadians to pay US taxes.

Problems

Ukraine faces a climate of negative publicity for tourism development and a lack of adequate information on the country and its attractions. The exposure the Ukraine receives in the American press has either to do with Chernobyl, the Ukrainian "Mafia", crime, and the threat of smuggled nuclear weapons or fuel shortages. For independent travelers, locating information on the tourism product offerings is difficult. The US government consular information sheet paints a less than positive picture of the country.

Operators reported a need for better infrastructure, higher standards of service, a cleaner environment, easier border crossings, and improved tourism products. They report sub-standard accommodations and a frequent lack of hot water and lack of clean toilets. Taxis are not readily available, and infrastructure is not well developed or established. Other complaints include high money exchange commissions. At airports, clients pay excessive "duty" on artifacts or souvenirs. Border crossings are longer than they should be and not very efficient. Occasionally, customs tries to extort money from tourists leaving the country. Travelers checks and credit cards, gaining wider acceptance in larger cities, are limited to better hotels, western restaurants, international airlines and select stores. Although not as bad as it once was, fuel shortages can present a problem; medical facilities are of low quality and hard to find; in Internal travel can be difficult because of road conditions; rail and airline schedules can be sporadic and are sometimes canceled; and access to major attractions can be problematic. An operator reported that on the road to Kosiv groups have been stuck for up to 10 hours because of muddy road conditions. There are no bathrooms and no parking at the festival. The crime rate is increasing with the Western traveler and residents.

Operators also reported poor potential for marketing skiing vacations. They mention a lack of facilities and difficulty competing with North American or mainstream European ski resorts or mountains. The Eastern European countries account for a very small percentage of the overall European ski market.

The restrictions and logistics of acquiring a tourist visa was reported as an additional constraint. North Americans require a passport and visa before gaining entry into Ukraine. Visas have to be obtained in advance from the Embassy of Ukraine in Washington or Ottawa, or the Consulates in Chicago, New York, or Toronto.

Airfares are higher to the Ukraine than competing destinations. Other competitive destinations have much more flexible airline schedules and frequencies from London.

Competition and Comparative Advantages

Poland, Hungary, Slovakia or Romania have tour operators that organize specialized activities and tours. Hungary appears to be more focused on city tours and spa vacations, with little emphasis on "soft adventure" tourism. Slovakia and Poland are focusing their attention on the Tatra Mountains in the Carpathian region, with attempts to offer activities in both summer and winter. Romania has a developed down-hill ski market and extensive cultural and ethnic activities. They also combine multi-national tours, a product that Ukraine has not been actively developing. Carpati International Tours, the main national tour operator for Romania, arranges skiing in the Carpathians, hiking and nature walking in the Danube River, and tours of castles in which some with a "Count Dracula" theme. Tour operators reported that many of the areas in Poland, Hungary, Slovakia and Romania only participate in cultural activities for the benefit of tourists, which is not as appealing as the more traditional Ukraine Carpathians. In addition, the Ukraine's nature is described as beautiful and more untouched than other parts of Europe.

Well-organized and safe mountaineering and multi-day hikes are frequently offered throughout Poland, Slovakia and Romania. Poland has captured much of the hiking and walking markets. Slovakia offers over 300 trails through the high and low Tatras. These countries offer a wide range of facilities for this type of activity, including tour guides and equipment. Accommodations are developed to include high quality resorts with fitness centers, to lodging in private homes. Spa and health activities are developed in Slovakia and often combined with an outdoor experience such as nature walking in the Low Tatras.

Recommendations

Recommended were tours combining cultural experiences and outdoor adventure activities -- specifically, cultural and walking tours and bird-watching. They report that concentrating on these activities would aid in developing a positive identity for the Ukrainian Carpathian region and tap into the emerging trends in the North American market (i.e., soft adventure and a concern for the environment).

Multinational tours marketing the Carpathians as one region are also recommended because many North Americans have little knowledge of Ukraine. One sample tour would be a Lviv city tour combined with a 6 or 7 day visit to the Carpathian regions with backpacking or walking. The departure could then be from Krakow, combining more touring, or back to Lviv. The former would be more appealing since the traveler would not have to back-track. Also recommended are

promotional campaigns targeting North America that inform tourists of this market potential and additional direct flights into Lviv.

The inflexibility of air fares and schedules is a hindrance to the traveler. Recommended are tours and airline schedules that allow the traveler to arrive in one country and depart from another. This would allow greater access into the Ukraine Carpathian region and offer the type of flexibility required by North American travelers.

3.2.6 The Scandinavian Market

Overview

The Ukraine is unknown to most Scandinavians. Few Scandinavian tour operators arrange tours to Ukraine and none to the Carpathians. Those who do offer trips to the Ukraine provide them to Kiev, Odessa, and Krim as well as cruises on the Dnieper. Tour operators report little interest in Ukraine but an increasing interest in Poland. Forty representatives from different bus companies traveled to Poland last April for the purpose of starting tours to that country. This interest may in the future offer the possibility for multinational tours into Ukraine. Tour operators report that travel to the Carpathians would be possible by car or bus.

Down hill skiing is a popular sport in Scandinavia. 45,000 Swedes go to the Alps or similar regions each year, but only a small segment of the market is interested in hiking, cross country skiing and birdwatching.

Flights from Stockholm to Kiev are comparatively expensive. SAS stopped flying to Kiev because of an airport tax increase of fifteen percent. Other airlines fly from Scandinavia to Lviv; LOT and SAS fly from Stockholm, Copenhagen, and Oslo to Lviv.

Problems

The Ukraine is poorly represented in Scandinavia. It was reported that the Intourist representative in Stockholm did not want to sell trips to the Ukraine. Tour operators with a potential interest in the region have no information about the region's potential. Due to the high airfares, ski trips to Ukraine compared to Poland and Slovakia are expensive. Most Scandinavians only associate Ukraine with the Chernobyl disaster, the Mafia, and nuclear weapons.

Competition and comparative advantage

The Baltic states have become a popular tourist destination for Scandinavians. Additionally, interest in Poland is growing. Few Scandinavian operators visit the Carpathian regions of Romania, Slovakia, Poland and Hungary, although Romania had 3,000 Swedish tourists last year and are predicting 9,000 to 10,000 in 1996. Hungary also draws the Swedish tourist and in 1994, reported 108,000 tourists coming from Sweden. The chances of attracting a portion of these tourists to Ukraine is unknown.

Recommendations

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Recommendations include production of good promotional material, including brochures with information on resorts and hotels. Other recommendations include hiring a local Scandinavian representative and establishing direct links to Scandinavian travel agencies provided the agents agree to advertise Ukrainian tours in their promotional information. Because of the interest in Poland, Ukraine has the possibility to attract Scandinavia tourists with a multinational tour.

3.2.7 The British Market

Overview

The general perception of Ukraine is a country undisturbed by mass tourism but a country plagued with many problems such as high prices and crime. Additionally, the Ukrainian Embassy in London is reported to be unhelpful and a deterrent to anyone interested in travel to the country.

In general, operators report sales to the Ukraine are low. The only current tour having success is river cruising from Kiev to Odessa. A constraint mentioned for Carpathian tourism was the difficulty of getting tourists from Kiev to the mountains. Also mentioned were the high prices. There is one tour operator specializing in only Ukraine and this firm deals exclusively with diaspora tourism.

The citybreak tour (city-based vacations of short duration) is a growing business in the UK and now on par with skiing and twice as popular as cruising. It is a highly competitive market and requires frequent, direct non-stop air routes and inexpensive hotels. Tour operators report that a tour combining Lviv and Krakow may hold potential for citybreak tours because Lviv does not have sufficient draw to become a destination in its own right and it needs to be offered as an add-on to a longer tour.

The ski market potential is reported as minimal. Unless the Ukraine can compete with Bulgaria, and to a lesser extent Romania, it will not establish itself as a winter sports destination. While there is good snow, the condition of the infrastructure in the Carpathians currently prevents entry into the British market. The only press report for Ukrainian skiing in March 1995 gave Slavska a poor rating. Negative points were made about the scarcity of ski lifts, the lack of piste grooming equipment and the depressing nature of the apres-ski life. In the authoritative *Good Ski Guide* (a "bible" to British skiers on resorts), Ukraine is not mentioned.

Compared to other East European cities, Kiev is poorly served by flights. The Polish carrier LOT flies non-stop from London to Warsaw and more importantly to Krakow. British airways is offering non-stop service to Kiev from Gatwick three times a week, mainly for the business traveler. This may lead to inroads into the Ukraine International Airlines (UIA) British market and force them out of the competition. Less competition means higher prices for tourists and a reduced frequency of service. In addition, during the summer, UIA operates from Manchester, a weekly flight to Kiev via Lviv or Ivano Frankivsk.

For the potential individual tourist market, coach service is available from London to Warsaw and Krakow three times a week. Rail service information available in England mentions that the ride between Lviv and Krakow takes nine to ten hours and has no sleeper option. Information booths are also reported as unhelpful. Birdwatching possibilities are mentioned but operators report no latent current demand. They list only Ukraine's impressive number of species.

Problems

Problems include difficulties in obtaining a visa, particularly a double entry visa for the Moscow-Ukraine-St. Petersburg tour; difficulties with transferring funds in which operators report money had to be transferred to remote accounts in Germany; inflation rates make it difficult to fix prices. There is no tourism representatives in London or any major British city; and high prices for tours were also mentioned.

Competition and comparative advantage

Poland has made great inroads into the British market. Southern Poland, mostly Krakow and the Tatra mountains (including Zacapane), is the most active area for British tourism. Poland has captured the British walking market. Even though as the center of outdoor pursuits in Poland, Zacapane is a disappointment. The British see Poland as an area with good natural beauty and a growing commitment to conservation. Poland has 21 national parks and over one 100 protected areas. This is an attractive draw to the increasing ecologically concerned British tourist.

Competition in the British market for the Carpathians also includes the Romanian resort at Poiana Brasov. The resort is only a two and a half hour transfer from Bucharest. Ukraine Carpathians have a comparative advantage regarding cultural attractiveness. The main interest of the British market to Hungary has been to Budapest.

Recommendations

Recommendations include establishing a tourist office or for the short-term installing a London-based tourism representative. More promotional material is also needed. The marketing consultant reports that British tourists need to hear why they should go to Ukraine and that the shortcomings, whether imagined or real, are not as bad as their reputation.

A significant way to increase tourism would be to offer a UIA non-stop flight to Lviv, preferably on Friday, Saturday and Sunday. Another potential action would be to offer tourists the ability to purchase non-restrictive tickets which combine Krakow and Lviv. This would open up a an interesting tie-in with Southern Poland, an area with good potential for the British market.

Recommended is a strategy that develops special interest tours such as walking and birdingwatching. The consultant recommends tours of the Carpathian mountains be sold with several activities such as a one week tour combining Lviv for three nights and the mountains. The specialty markets, such as the walking and birdwatching markets which are comparatively small and a combination of historical, cultural and physical attractions combined with walking would be the recommended strategy. Also suggested is a two to three hour raft trip similar to the one offered through the limestone gorges of Poland's Dunajec River in the Pieniny National Park.

The consultant recommends persuading British tour companies already offering East European itineraries to extend their tour to include two or three days in the Ukraine. Tours that already include Zacapane and Krakow would be the obvious targets. Above all, the consultant believes that for the British market the Ukraine's Carpathian tourism is tied to Poland and, therefore, there needs to be convenient flights into Lviv and at least one high quality lodge-style hotel in the mountains. The architecture has to be of a classic traditional Carpathian style with

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menus and signs in English. Also recommended is a city-break vacation that includes Lviv and Krakow. Additionally, a coach or minibus tour should be developed combining Southern Poland, Krakow and Zakapane, with the best of the Carpathians, including Lviv. This should be developed with the option to fly into Krakow and back from Lviv or vice-a-versa.

The Carpathians need to have the services of two or three very competent and knowledgeable ground operators who can be relied on to handle the mechanics of in-country travel.

3.2.8 The French Market

Overview

The Ukrainian tourism market in France is poorly represented. From all the brochures and tour operators interviewed, Ukraine was offered as a one-day destination out of a five to seven day program. Most of the tourism to Ukraine comes from French citizens with Ukrainian heritage. Most French tours are between three to five days for the short tour and ten days for the long tour. The most popular tours are the Moscow-Kiev-St. Petersburg circuit.

Little information exists describing Carpathian tourism opportunities. There is an absence of flights from Paris to Kiev. This lack of service dissuades most of the French tour companies from exploring more of the market. Charters from France to Ukraine are scarce making the price of a ticket expensive. Ukraine International airlines does have a flight from Paris to Lviv. A lack of good routes makes car transport problematic; the consultant reports the French perceive that Ukraine is too long a journey.

The high unemployment rate in France has effected international travel. French people are now traveling more in France than before. One of the dangers pointed out is the desire to construct large hotels. French investors have over-built in many parts of the world (e.g., North Africa.)

Problems

A scarcity of updated information and lack of regular flights to the region are the two key problems reported.

Competition and comparative advantage

Competition comes from many of the less expensive tourism options offered to the French. Inexpensive tours to North Africa continue to have a high demand.

Recommendations

Recommended are smaller hotels financed with local capital. Also, a better defined image of the region that would appeal to the French market, i.e., good food, healthy outdoor activities, and culture. Culture is of great interest to the French traveler and any cultural links with France (e.g., French cultural activities in Lviv) should be emphasized.

There is a need to reassure the major tour operators of the quality and the security of the region's lodging, restaurants, and local services, with the use of guides. Information on Ukraine should be sent to the various tour companies.

3.2.9 Profile of the North American Ecotourism Traveler

One specialty market of particular importance is the nature tourism or ecotourism market. Descriptions of the North American ecotourism traveler are presented here in more detail to give AID and the Committee for Tourism a concrete outline of client preferences for this market. While the information is from North America, past experience indicates that it is also relevant to Western European markets.

A 1995 study of 1,384 general tourism consumers in seven North American cities was undertaken and provides a profile of the North American ecotourism traveler. Ecotourism was defined as a trip involving natural pursuits, adventure and/or cultural experiences.

The travelers surveyed were between 25-54 years old, mostly couples (one third are families), well educated, and prefer summer travel. This group has the time, education and money to travel. 38% are willing to spend over $1,500 per person on their next vacation. 61% of the respondents read nature-related magazines and 11% belong to nature-related clubs and organizations. The general consumer interested in ecotourism vacations rated casual walking and hiking/trekking highest as activities they enjoy. They prefer multiple activities and mid-range accommodations in which preferred destinations are natural settings that provide personal growth, physical fitness, education, and a contribution to the planet's environment. In addition to a natural setting, the North American traveler believes that ecotourism should also include cultural as well as heritage experiences.

The study indicated that 77% percent of the 1,384 respondents had taken part in an ecotourism experience of which eight percent of those indicated that Europe had been their destination. The remaining 23% stated that they were interested in having an ecotourism experience on their next vacation. The study concluded that there is a potential market of 13.2 million travelers in the seven cities studied.

A study conducted in 1992 (Yee) suggests that Central and South America are the first choice among tour operators, with Africa second and Asia third. European ecotourism opportunities were originally not well-known.

Ashton provides a profile of Americans participating in natural history and birdwatching tours. He reports individuals comprising this group are generally professionals -- doctors, lawyers and business executives and their wives; most have advanced degrees; the median age is middle 50's to lower 60's; average income is $55,000 per year (description provided in 1989, so salaries would have increased); and participants are active for their age. Biological information of participants has mostly been acquired through television, magazines and non-technical books. Less than five percent feel they have sufficient knowledge to develop their own tour itineraries. Nearly all surveyed would not travel to a destination without being part of a group. Groups are usually 15 people plus guides.

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Ashton reports that housing at or near natural areas should be kept simple but clean. Double accommodations are essential with private baths for each room. The majority of clients prefer small hotels or pensions. The atmosphere of the hotel or pension should fit the surrounding environment and the facilities should be quiet in the evening after an active day in the field. Overnight stays in very rustic conditions (e.g., tents) are acceptable if they provide access to special areas or attractions.

Food is important, and a choice of local and American cuisine is preferred. Early meal service at the hotel is essential because people are out early into the field. The hotel should be able to provide field lunches.

Participants report they do not want to see other people when they are in the field. Interpretive signs describing wildlife are not popular. If possible, trails should be designed in a loop and long enough for a three hour walk. Efficient and well-outfitted ground operators are essential. Guides are extremely important and they must be very knowledgeable of local culture and natural history. Safety and security are important.

3.3 Summary of Market Survey Tourist Preferences

3.3.1 Attractions and activities

Market analysis indicate that opportunities for the Western and Central European markets center around the development of regional walking and cultural tours, smaller two and three star hotels, and farm tourism with camping areas.

- Tour operators report good potential for cultural touring. The heritage and ethnic value of the Ukraine Carpathians is rich. The Saturday Kosiv crafts market (an hour from Ivano Frankivsk) is reported excellent. Tour operators report Lviv and the surrounding area can compare favorably to any other region in East Europe. Many of the areas in Poland, Hungary, Slovakia and Romania only participate in cultural activities for the benefit of tourists, which is not as appealing.

- Nature-based tours are recommended, particularly walking tours in combination with other outdoor activities, day tours in Lviv, and folklore ceremonies. The over-selling of the Tartra Mountains in Poland may offer the Ukraine the chance to promote itself as a more unspoiled destination.

- For the short-term, multinational tours through Lviv offer some potential for the Carpathians. Citybreak tours have potential if flights and accommodations are moderately priced and reliable.

- Bird-watching is recommended although marketing will need to be proactive with a long-term marketing campaign.

- For German tourists, the area of old German settlements located outside of Lviv has potential. Germany is Poland's largest tourism market source and may be drawn to the Lviv area in cars. There are Old Austrian World War I cemeteries that attract Austrian tourists.

• Currently, U.S. and Canadian tourists traveling to the Ukraine are of Ukrainian heritage or connected in some way by personal history or family. Nature and cultural tourism is also recommended for this market.

• Western operators report poor potential for marketing skiing vacations. The Eastern European countries account for a very small percentage of the overall European ski market.

• Few Scandinavian tour operators arrange tours to the Ukraine and none to the Carpathians. Future potential for this market will come by attracting tourist through Poland.

Prices must be moderate to attract international tourists. Charges for German tour were cheaper than similar tours to Russia, and the Baltic countries, Greece and the South of Spain. This indicated that there may be a comparative advantage due to price.

3.3.2 Reasons for Leaving

Data suggest that most tourists travel to Ukraine for cultural tourism purposes.

Few nature tours are being offered (e.g., skiing, fishing, trekking, hiking, camping, kayaking, or river rafting.

3.3.3 Infrastructure

Data suggest tht most tourists prefer three star hotels. Cultural tourists show a slight prefernce to four star hotels. Romania and Slovakia show similar hotel preferences.

Bed and breakfast, homestay and farm tourism offers potential and should form a key area of accommodation development. Farm and cottage tourism seem to have potential because nature tourists need some minimal level of services that are in short supply in the Carpathian region.

3.3.4 Services

Services need to improve. Operators report a need for better infrastructure, higher standards of service, a cleaner environment, easier border crossings, and improved tourism products. They report sub-standard accommodations and a frequent lack of hot water and lack of clean toilets. Taxis are not readily available, and infrastructure is not well developed or established. Travelers checks and credit cards, gaining wider acceptance in larger cities, is limited to better hotels, western restaurants, international airlines, and select stores.

Car rental, taxi, and local transportation appear to have the lowest levels of satisfaction for both cultural and nature tourists.

Cultural tourists perceive problems with security compared with other types of services.

Data quality prevented a definitive range for the length of tourist stays which is an important economic consideration. Tourists to the Ukraine are more likely to stay a week or more than tourists going to competing countries.

Tour operators report no problems with food or with communication.

The restrictions and logistics of acquiring a tourist visa was reported as a constraint for Ukrainian tourism.

3.3.5 Mode of Travel

Airlines are the preferred mode of travel. There needs to be more direct flights to Lviv.

A concern of most tour operators is the Air Ukraine service is poor and flights can be canceled. Airports are not modern, so there are often long delays frequently with only one carousel for baggage and general inefficiency.

Airline schedules that allow the traveler to arrive in one country and depart from another would allow greater access into the Ukraine Carpathian region and offer the type of flexibility required by North American travelers.

Travel to the Carpathians by car or bus is feasible for Scandinavians, Germans and Austrians. There needs to be information on these vehicle routes.

The Ukraine Carpathians are relatively unknown to the West. There is a lack of media coverage on Ukraine tourism and the coverage that exist is mostly negative.

Production of a tourist guidebook is highly recommended. Other recommendations include: (1) press trips and familiarization tours; (2) organization of a meeting of Ukraine operators and foreign tour operators; and (3) and opening a tourism information offices.

Ukraine has an image problem. The image of the Ukraine is better among those who have visited than those who have not. Tourists coming to the Ukraine are not altogether displeased with their experiences. If Ukraine is the tours destination, mean scores are higher and standard deviations are lower for the survey categories dealing with image and potential for tourism in Ukraine. This is not true of tour operators in competing countries. An important marketing consideration suggested by the data is that, after a tour operator is more familiar with Ukraine, the image and potential is listed as more positive.

Concentrating on tours offering historic and ethnic experiences, birdwatching, casual walking and other soft adventure activities would aid in developing a positive identity for the Ukrainian Carpathian region.

At this time it would be difficult to market Ukraine on its own, but the Carpathian Region could be marketed as one region, regardless of the countries contained within its range. This would be an effective way to package multinational tours in and around the range, while providing the very best activities and experiences available.

Opening tourist offices in foreign countries would help to sell the Ukraine.

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Additional research needs to be carried out on the Baltic, CIS and marketing preferences from the Eastern European countries.

Markets that emphasize diaspora tourism are limited to the short term. (Most diaspora tourists are older.) Ukraine should focus its long-term marketing efforts on current and future tourism trends that emphasize natural settings with activities that are educational, provide personal growth, physical fitness, and a sense of contribution to the planet's environment.

3.4 Additional Conclusions Provided in the Project's Economic Analysis

Ukraine's future tourism development will be difficult. Resources devoted to alternative lines of economic activity may improve the economy to where a level of tourism readily follows. Tourism will probably not lead the economic recovery, although it can be an impressive complement to economic growth. Agriculture, manufacturing, and small business development may provide a larger economic boost than strictly focusing resources toward tourism. A balance of efforts must exist.

Germany, Belgium, Netherlands, Sweden, and Great Britain each spend more money abroad on tourism than they receive and, therefore, should be targeted for Ukraine's promotional efforts.

Considerable potential exists for improved economic linkages. After an adequate data collection system is in place, further study and planning needs to be devoted to examine these linkages (e.g., ski lift manufacture, repair and maintenance, farm tours linked with food production, and vehicle rental and repair).

An objective analysis of the market potential of the Carpathian region can only be carried out with the availability of better data. There needs to be a major effort to plan and implement an ongoing effort to collect, analyze, and report tourism data consistent with the definitions laid out by the WTO and the UN. Business travel needs to be separated from recreational travel and expenditure data of tourists is necessary for any type of economic impact model.

4. Tourism Opportunities

While there are many natural and cultural attractions in the Carpathian oblasts, tourism demand is low. Outside of the business travel market, few short-term opportunities exist. Constraints include problems with accommodations, infrastructure, transport and a limited marketing campaign by the national government. Full use of the country's tourism resources are hindered by a lack of investment incentives and high taxes. If foreign donor agencies continue tourism efforts, equal assistance for these complementary activities in conjunction with business is necessary.

4.1 Overview of Opportunities

Regional workshops provided recommendations for tourism-related businesses within the triangle area of Ivano Frankitsk and Zakarpatska oblasts. Several craft businesses were not included because they were not tourism related. A complete list of craft opportunities are

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contained in a separate report. Also identified in interviews were the possible opportunities for health spa tourism, but no detailed information was included for this market.

4.1.1 Opportunity 1. Support for Ukrainian Ground Operators

Business description

Ground operators are host-country travel firms used by foreign tour operators to supply logistical support and make in-country travel arrangements. In other countries, firms have their own equipment and transport and are well-connected to the international travel markets. While the current situation shows a lack of tourism demand, developing these businesses is essential in developing Carpathian tourism. Within the project area, walking and cultural tours have been identified as having tourism potential. However, few Ukrainian ground operators offer these types of tours.

Customer demand

Walking and cultural tours have future potential for foreign tourists coming from Poland, the Czech Republic, and several Western countries. There is also potential from the growing American and Canadian nature or eco-tourism markets.

Lviv and Uzhgorod are logical places where support for these businesses should be focused; they are both important regional transportation and communication hubs. Lviv is a historical city of high attraction value. Uzhgorod, while not having numerous historic attractions, has a vibrant city life with cafes and restaurants. Both cities have adequate accommodations.

Statistics show that the majority of foreign tourists to the region come through Lviv and secondly into Zakarpatska through Uzhgorod. With the current tourist flows, Carpathian ground operators would have the opportunity of selling their services to independent clients, including business travelers. Additionally, both cities could be used as integral components for multi-country tours. Tours having the greatest short-term potential combine Poland, Lviv and the Ukraine Carpathians. Lviv is close enough to scenic mountain areas, including the Kosiv area, to permit several days of walking and cultural experiences. A suggested tour includes Lviv and several days in the mountains. Krakow, in Poland could be included on the tour. Also having good potential are the routes from Uzhgorod to Sinivir National Park and, more importantly, routes to Carpathian National Park and Hoverla mountain. The latter is a principal objective for walkers.

Competition

Competition for the walking market is centered in the neighboring countries of Poland and Slovakia. Both these countries have better infrastructure and accessibility, less restrictive visa requirements, and a more progressive tax structure that encourages tourism development. In addition, there is developed infrastructure and better services in their national parks including a system of trails with detailed maps. Cultural tours face competition principally from the historic city of Krakow.

Resources needed

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For business startup, the region needs two or three reliable firms with a knowledge of the international specialty markets. To develop these resources, support for interested tour operators and individuals is needed, particularly in travel operations and business skills. A workshop or a series of workshops should be carried out covering these topics. In addition, small band loans series of workshops should be carried out to cover these basic topics. In addition, small business loans are needed to finance basic office equipment, outdoor equipment, capabilities. Outdoor equipment should include tents and stoves. At the start of business development, transportation could be supplied by using rented vehicles.

Trail development and maintenance is needed for the walking tours although walks could be organized without further actions. Interpreted displays at cultural and natural sites also need support. There are many regional specialists with extensive experience who could act as guides.

Environmental Considerations

Insuring that firms follow accepted environmental practices when visiting natural and cultural sites falls to protected areas and cultural site management. Operators do have a responsibility toward environmental protection but experience has shown that, at the start of business operations, foreign clients are more environmentally aware than the operators. This situation changes as operators learn more and realize that it is in their interests to conform with management and the demands of their clients.

Supplying park staff and tour operators with information on environmentally sound techniques for managing tourists is another activity that could enhance the probability of increased sensitivity. Much research has been carried out on techniques to mitigate the environmental problems connected to outdoor recreation. These techniques and research publications should be readily available to protected area specialists.

Constraints, Problems, Risks

Current lack of demand indicates risk for any tourism development project. Other constraints include the lack of marketing efforts related to walking and cultural tours. The State Committee for Tourism has not had the resources or motivation to focus on these markets. The Zakarpatska oblast government appears to focus its efforts on ski area development. Lviv governments, while interested in cultural tourism, have little capital for the development of attraction infrastructure. In addition, small shop-tour operators have no experience in these specialty areas and lack capital for business development. Parks and protected areas have little contact with the tourism markets. High taxes impede entrepreneurial efforts to develop small businesses.

Implementing Mechanisms and Agents

Marketing and promotion would be greatly aided by the production of a regional guidebook listing information on the available firms that could provide tourist services. In addition, the list of firms should be submitted to international tour operators and relevant international guidebooks.

Support for training on developing tour operator and business skills will be needed from foreign donors but efforts should be coordinated with both the local Lviv and Zakarpatska oblast

governments. AID loan opportunities are needed until market conditions improve. Only a few loans would be needed for the outstanding candidates who have completed the suggested tour operator workshop.

If protected area development is of serious concern to Ukraine and foreign donors, the Ministry of the Environment and Nuclear Safety must make a more concerted effort to obtain information on tourism management techniques. In addition, they must be more active in establishing ties to individual tour operators. Policies on park fees and concessions need to be addressed. A Peace Corps volunteer specializing in recreation should be recruited to assist in the development of tourism in the Carpathian National Park and the Carpathian Biosphere Reserve. Policy changes now restricting this business are well-known and mostly tax related.

4.1.2 Opportunity 2. Small Two- and Three-Start Hotels and Ski Lodges

Description of the Business

An opportunity exists for either the development or upgrading of two- and three-star hotels such as the type represented by the Roxalana Hotel in Ivano Frankivsk. Two-star hotels that are moderately priced with slightly less quality would capture some of the market demand from principally the Russian and Ukrainian markets, but also tourists from Eastern Europe. If financing can be found, hotels should consider the possibility of accommodating the requirements of Western tour operators; approximately fifty rooms with sufficient space for one hundred people. Support for businesses interested in developing small ski lodges around important Carpathian ski areas is also recommended.

Customer Demand

Results of the marketing studies and tour operator interviews indicate tourists preferences for these types of accommodations. Currently, hotel prices are high and a more moderately-priced hotel with good services would be competitive. Interviews and journal articles indicate that wealthier Russian tourists now touring the Carpathians for ski vacations prefer small, family-style two-star hotels.

Lviv and Kosiv are logical places for the development of the hotels. Lviv City should be the primary market for development but further research should be carried out to identify a location in Lviv oblast that is close to a historic site. Several interesting possibilities include Sudova West and Uzhgorod.

Competition

Competition would continue to come from the Grand Hotel which controls most of the business trade, although there is a real market niche for the hotels described above. A certain sector of the Russian and Ukrainian ski market will continue to use the larger ex-Soviet style resort hotels. However, indications are that the wealthier Russian and Ukrainian clients prefer smaller and more intimate accommodations.

Resources Needed

Additional market research needs to be carried out at the ski resorts listed above. Information on visitor flows to these areas and information on existing bed occupancy rates was beyond the scope of this project.

AID loan assistance could help to provide the financial resources needed to develop these businesses. Training of hotel staff may be useful but probably not essential to successful business development. In Ukraine, private tourism entrepreneurs have a good grasp of what is needed.

Environmental Considerations

Questions remain as to the effectiveness of the regulatory departments in monitoring various environmental conditions.

Constratins, Problems, Risks

Until the system is repaired, water shortage problems in Lviv will present constraints to any hotel. As with all businesses listed in the report, the lack of a well-developed marketing outlet is a key constraint. National and oblast tourism plans focus on larger hotels and little attention is given to the development of smaller units. There are current tax structures restricting development.

Implementing Mechanisms and Agents

Marketing and promotion actions are listed in the marketing section but , if possible, should involve the participation of the Committee for Tourism and their promotional efforts.

Project infrastructure development and financing are necessary, but the availability of loans for these projects is limited. AID has funded hotel projects in the past, but their willingness to supply financing in Ukraine is unknown. Bundling an investment package of several hotels and lodges in one area is a recommended strategy for acquiring international funding. Linking a hotel in Lviv with the development of lodges for skiing may provide an attractive package to international investors. However, most development will probably come from the initiatives of Ukrainian entrepreneurs since few international investors will be attracted to the area with its current demand. Policy changes that are needed are well-known and mostly tax-related.

Regulations for environmental monitoring are in place. Individual inspections of hotels and lodges to determine compliance with environmental codes must be coordinated with oblast officials of the Ministry of Environment and Nuclear Safety. Their willingness to carry out these inspections is unknown. If food is served in hotel restaurants, coordinated efforts with the Ministry of Health would be essential.

4.1.3 Opportunity 3. Bed and Breakfast Development

Description

Bed and breakfast business offers tourists accommodations in local homes. The homestay business has a long tradition in the Carpathians. Even during Soviet times, tourists from the main cities vacationed in regional towns and frequently stayed at local residences.

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Because of the tradition, interest in providing this service continues. Recent initiatives have taken place in Kosiv. In the village, the Kosiv Women's Organization has developed a structure for a Bed and Breakfast Association, enumerated the responsibilities of a central reservation agent, and designed a registration form. The group estimates that there are 30 to 40 families who would like to participate in a bed and breakfast program and who could accommodate one to three guests. These homes have running water and telephones.

Customer Demand

Market information indicates that the Ukrainian domestic market has a need for quality, inexpensive bed and breakfast facilities. Interviews and information obtained at the regional workshops showed considerable interest in this business particularly in the Kosiv and Kolomiya areas.

Based on the analysis of areas having a high potential for attracting tourists, Kosiv should be the first area targeted for development activities. Other areas exist with the same tradition of offering home-based accommodations; however, Kosiv also has a tradition of crafts, is visually attractive, and is close to a beautiful mountain area for walking.

Competition

International competition will come from Hungary, Slovakia and Poland. In addition, when the economic crises diminishes and domestic tourism increases, other areas of the Carpathians with a tradition of home-based accommodations will enter the market (E.g., Kolomiya is also interested in establishing a bed and breakfast organization.)

Resources Needed

Those interested in the bed-and-breakfast business have experience in providing such accommodations in which many continue to offer this service to Ukrainian families. Because the market would be mainly domestic, little would be needed for technological improvements. Financial resources in the form of loans for upgrading infrastructure would be useful, but not necessary. Some additional training may be needed to educate entrepreneurs about the preferences of Western tourists if this market was developed.

Environmental Considerations

Adequate waste disposal facilities and reliable clean water sources are two important environmental concerns with this business. Local enforcement of environmental standards at this time is questionable. Small businesses, however, would need to maintain certain standards to remain competitive.

Constraints, Problems, Risks

Although cheaper than local hotels, high taxes would force a legally operated bed-and-breakfast to charge the relatively high price of fifty dollars a night per person. Other problems include a $250 license charge, fear of the Mafia, a lack of marketing know-how, and a lack of local advertising. A further problem is the difficulty for individual foreign tourists in obtaining a visa.

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Under present regulations, a tourist voucher with hotel reservations or tour reference number is required.

Some people will decide to operate unofficially and will therefore avoid some of the problems such as licensing and taxation. However, operating unofficially will make other problems more difficult to deal with such as marketing and advertising.

Implementing Mechanisms and Agents

Marketing and promotion needs to include a publication listing available accommodations. This list should be published and distributed in Kiev along with a location map. For the international markets, guidebooks should carry the information. The nascent, Kiev-based Rural Tourism Association is planning on publishing lists of rural and farm tourism opportunities and distributing the list. A lack of working capital will almost certainly impede the progress of this new organization.

Institutional options for regulating the business would have to come either from the Committee for Tourism or their local representatives at the oblast level. Standards are being developed for the tourist industry and international advice would be useful. Short-term actions by the Committee to target this industry are probably limited.

The Kosiv bed-and-breakfast association leaders understand the importance of setting and maintaining high standards for cleanliness, food preparation, and hospitality. Although they acknowledge the benefits of training, they feel that, due to the absence of other options, their organization can supply the training and enforce standards.

Startup activities for the domestic and Russian markets would not need upgrades of infrastructure development or additional financing. Environmental and social monitoring would be regulated under the Committee for Tourism. The Kosiv Women's Organization has suggested tax exemption for retired workers who want to supplement their pensions by operating a bed and breakfast.

4.1.4 Opportunity 4. Farm Tourism

Description of the Business

Business opportunities in this category are similar to the opportunities mentioned for developing bed and breakfasts. Farm tourism refers to working farms that supplement their income by catering to the tourist trade. Farm services can include accommodations such as renting out an extra room, renovating an outbuilding for lodging, or offering a camp area. Other types of farm tourism include operating a restaurant, a small retail outlet for farm products, or offering horseback riding, fishing or hunting. Farm tourism may also consist of participatory activities such as cheese-making, berry-picking, and canning.

The Carpathian mountain area is well-suited for this business for the following reasons:

- Farmers need the supplemental income, they have the tourism resources and are near tourist markets;

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- Farm tourism offers several economic benefits in which tourism activities can supplement a farm income with little or no required investment;
- Given the range of possible offerings, farmers can test different options with little risk by adapting their tourism program so that the primary agricultural work continues as the tourism business is developed on the side.

Customer Demand

Farm tourism has potential for Ukrainian domestic tourists and Western and Eastern European tourists on walking tours. Reports indicate that the Kosiv area and the area surrounding the Carpathian National Park and Carpathian Biosphere Reserve have potential to attract clients willing to use farm services.

Competition

Competition from Poland, Hungary, and Slovakia will affect the viability of this market. Hungary has an active association of rural tourism that publishes listings of available farm opportunities.

Resources Needed

More support is needed in developing farm tourism than is needed in developing bed-and-breakfast operations. Promotional assistance and training are essential since farmers lack the experience of town residents who have a long history of accommodating tourists. Financial and technical resources are needed to help farmers distribute farm promotional materials.

Infrastructure demands are light. Setting up a camping area requires little infrastructure development. A water source and clean toilet facilities would be adequate to start. If camping areas are provided, shelters could be provided at a later date as the business grew. Additional financial support would be needed to upgrade rooms or outlying buildings, and experience in other aspects of the business would indicate that the active participation of an advisor or an extension agent is beneficial to insuring success.

Environemental Considerations

As with bed and breakfasts, adequate waste disposal facilities and reliable and clean water sources are the two important environmental concerns with businesses. Again, local enforcement of environmental standards at this time is questionable, but the farm would need to maintain a sufficient standard to remain competitive.

Constratins, Problems, Risks

A key constraint with this enterprise is the lack of marketing outlets available to promote farm tourism services. For the short-term , direct marketing assistance seems unlikely. Although there is an interest in the Association of Rural Tourism, the Committee for Tourism and its local representatives have not indicated direct support for the program. Local governments are concerned with the development of larger projects. A further constraint is that communities do not have a well-developed concept of what is required to compete in the tourism markets.

Implementing Mechanisms and Agents

For marketing and promotion efforts, external donors, the Committee for Tourism, and the Ministry of Agriculture should support the publication of a regional tourism guide that includes farm-tourism opportunities. For the longer-term, they should support the publication of a farm-tourism travel guide similar to the Dutch *Holiday on the Organic* Farm or the French and Spanish government publications advertising rural tourism opportunities. This guide would provide general and detailed information on the services and activities of participating farms. The guide should be distributed at travel resource outlets in the Ukraine, Central and Western Europe, Canada, and the US. In addition, farm tourism associations must have open access to walking tour operators as tours are planned and developed. Municipal and oblast governments could actively assist these efforts.

In conjunction with the guide, the Committee for Tourism and the Ministry of Agriculture should develop a system to rate the farms. A quality rating system would encourage operators to maintain high standards, including environmental standards, in order to achieve good ratings. Both government ministries should play an active role in this work. In addition, research should be carried out to determine the benefits of government support for the Association of Rural Tourism in Kiev.

Farm tourism development should focus on education and training programs. Initial work should identify interested farmers and, after this step, farmers must be made aware of the kinds of services and attractions tourists are seeking. Organizing a series of workshops would provide an introduction to these markets in which the Committee for Tourism and the Ministry of Agriculture should take the lead in these sessions. For the workshops, a foreign tourism expert should be recruited and several Ukrainian firms invited to make presentations and to advise the farmers on marketing issues. After the workshop, the experts should spend approximately two weeks in the area evaluating farms and advising individual farmers on visitor requirements. Outside financial support for training would help to insure its rapid development and completion. Literature on tourism development should be obtained and translated into Ukrainian.

Financing should take the form of improving infrastructure. AID and the European Community would be the obvious choices to provide this assistance. The common recommendation of general tax relief and policy changes to develop specific farm tourism tax incentives should be explored. (Examples of these tax structures are found in many of the Western European countries and usually involve further reductions in the value-added tax or incentives for infrastructure improvements.)

4.1.5 Opportunity 5. Artisan Studio Tours

Description of the Business

Tours of artisan studios were identified as an opportunity by the project's crafts consultant as well as regional workshop participants. Their reports indicate that tourists have expressed an ongoing interest in this type of tour.

This activity has advantages for both the artisan and for the tourist. Artisans either sell their products at local bazaars or shops or at their homes (or studios). If they sell at a local bazaar or in shops, they sell inferior products to keep prices low. Merchants must charge a value-added tax of 20% in addition to paying wages, payroll taxes, overhead, and income taxes. This forces craft prices higher and the artist must offer the cheaper, lower quality product to remain competitive. Because of this, many artisans reserve their best pieces for sale from their homes or studios. By opening a studio to tourists, the artist can sell his or her work directly without having to pay a middleman or broker. The tourist has the experience of meeting the artist and purchasing a high quality piece at a lower price. In addition, this activity can be combined with the bed-and-breakfast activities and the farm tourism activities already described.

Kosiv and the surrounding area is recommended for startup development of this business. Kosiv is listed as an attraction in all the guidebooks and with its crafts fair remains a focal point for those interested in this market.

Customer Demand

Cultural activities are recommended for Carpathian tourism development and are one of the region's strongest market segments.

Competition

Because the project's crafts consultant was not granted travel clearance from the missions in the neighboring countries, a more definitive analysis on the extent of the competition is not available. However, what is known is that Hutsul culture is considered more traditionally intact than the cultures in the surrounding countries, with the possible exception of Romania.

Resources Needed

Promotional outlets are needed to describe the type of art and the location of the artists' residences or studios.

Environmental Considerations

Environmental considerations are unknown but do not appear to be an issue.

Constraints, Problems, Risks

No information is currently available either to tourists to the region or to those living in Ivano-Frankivsk about the location of works painted by local artists.

Another issue is the difficulty in getting paintings through customs. Paintings valued at less than 17,000,000 kpns (approximately $90 U.S.) can be exported duty free. For paintings valued at more than 17,000,000 kpns, customs duties may vary from 50 to 300% of the stated value. In addition, the buyer must obtain an official proof of purchase from the artist. Also, the buyer must obtain a document saying that the painting has no historical value. With a properly executed proof of purchase plus two photographs of the painting, this document can be obtained from the State Experts' Committee or a branch of the Ministry of Culture in Kiev, Lviv, Odessa or in Uzhgorod.

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Implementing Mechanisms and Agents

A small brochure which includes a map is an inexpensive and effective way of disseminating information. Such brochures could be made available at a local artists' information center, local hotels and tourist offices as well as abroad at tourist agencies dealing with Ukraine.

Options for policy changes at the Ministry of Culture are unknown. A mechanism to facilitate export of the paintings may be difficult to implement. In all likelihood Kosiv area artists would be members of an association with a representative who would have to deal with the Ministry and customs officials. The names of the artists selling the painting would have to be given and because of tax issues artists may be reluctant to enter into a system requiring disclosure of sales.

4.1.6 Opportunity 6. Ski Equipment Supplier

Selling and renting equipment can provide a needed service for those domestic and foreign skiers traveling to the Carpathians. Reports from skiers and from Peace Corps volunteers indicate a lack of good quality ski equipment in Lviv and at ski areas which includes equipment for both purchase and rental. Additionally, boots and poles, equipment sales and rentals could include accessories such as clothes, goggles, and more modern equipment such as ski boards.

Customer Demand

Although current demand is low, the Carpathian ski markets continue to survive. From Lviv, there continues to be a flow of Ukrainian, Russian and Polish skiers traveling to Slavska and other well-known Carpathian areas. As the economy and tourist demand improve, service industries will continue to grow in importance.

Competition

The market for this opportunity needs more in-depth follow up research. In Lviv, there appears to be no shop selling or renting ski equipment which indicates future opportunity but reflects current demand and the need for capital financing.

Resources Needed

The availability of ski equipment in the major cities is a function of tourist demand and available capital for business startup. Loans would be necessary to provide entrepreneurs with the capital and promotional outlets are needed to advise skiers of the availability of the equipment.

Environmental Considerations

Environmental considerations do not appear to be an issue.

Constraints, Problems, Risks

Low demand reflects the current state of a depressed ski market. Business policy problems related to tax issues are also a constraint.

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Implementing Mechanisms and Agents

As the economy and tourist demand improve, Lviv would be a key staging area for ski tourism to the many established mountain areas south of the city. Lviv's urban population that is located close to the important ski areas makes it the first choice for implementing this initiative.

In addition, any ski equipment supply efforts should be mentioned in all promotional materials, particularly materials going to the domestic market and the Russian and Polish markets. Financing small business loans for this initiative should come from AID and the European Community. The initiative should be carried out after a survey of skiers from the Slovska ski area.

Regulations for importing equipment into Ukraine are unknown. High duties on importing the ski equipment almost certainly may cause a problem for entrepreneurs. Government support for tourism projects could include waivers for importing tourist-related equipment.

4.1.7 Opportunity 7. Outdoor Equipment Supplier

Description of the Business

Those visitors to the region interested in outdoor pursuits should be able to purchase needed supplies and equipment for their trips To alleviate transportation difficulties such as excess baggage costs, tour operators prefer to have host-country ground operators supply equipment for clients.

Customer Demand

Although current demand is low, market studies indicate that the Carpathian outdoor markets, i.e., hiking, hold potential for future tourism development.

Competition

Sport shops visited during the project had few modern supplies that would fill the demand of foreign tour operators and hikers. Some Russian equipment is available but it is heavy and its availability now limited. Some Polish hiking equipment such as boots are available in Lviv. Additional research needs to be carried out to determine the profitability of the business.

Resources Needed

To encourage this opportunity, business loans are necessary to provide entrepreneurs with working capital. Some countries where high quality equipment is not available have started manufacturing their own equipment. In this case, loans would also be useful to provide necessary startup capital.

Promotional outlets are needed to advise hikers of the availability of the equipment. Efforts to encourage developing the Carpathian region for outdoor vacations would have to be carried out in conjunction with regional promotional activities.

Environmental Considerations

Environmental considerations do not appear to be an issue.

Constraints, Problems, Risks

Low demand reflects the current state of a depressed tourist market. A lack of demand related to business policy problems is well-known. Any equipment supply program would be dependent on a much larger increase in visitor demand.

Implementing Mechanisms and Agents

This business opportunity is dependent on the promotional and development efforts of the regional governments, the efforts of the parks and protected areas, and the Committee for Tourism. As tourists' demand improves, nascent businesses will probably be started in Lviv, Uzhgorod and the area of the Carpathian National Park and the Carpathian Biosphere Reserve. In addition, the availability of outdoor equipment suppliers should be mentioned in all promotional material. Financing small business loans for this initiative should come from AID and the European Community.

4.1.8. Opportunity 8. Establishing Art Galleries in Kolomiya and Ivano Frankivsk

Description of Business

This business was recommended by the EPAT project crafts consultant who has had extensive experience in the region while serving as a Peace Corps volunteer. She reports that local painters have long expressed an interest in having an outlet for their paintings. Current initiatives include the renovation of a space to house a small gallery by local artists in Ivano Frankivsk. In Kolomiya, the Mayor is interested in renovating a space in the city hall building for a gallery.

Customer Demand

While visitor rates to these towns are currently low, the Kolomiya Museum of Hutsulshina is a well-known regional attraction and could attract tourists interested in crafts, local art and culture. Ivano Frankivsk has a steady flow of visitors, including business travelers who would be interested in purchasing local art.

Competition

Business competition for regional art would probably come from the artists in the town of Kosiv.

Resources Needed

The galleries would require the services of a bookkeeper and a manager. In Kolomiya, ten of the 50 local artists and artisans who form the local artists co-op could share the management responsibility. If AID wished to implement a program, it should encourage recruitment of a Peace

Corps volunteer to help in the organization and management of the galleries. Promotional outlets are needed to advise visitors of the galleries.

Environmental Considerations

Environmental considerations do not appear to be an issue.

Constraints, Problems, Risks

No information was gathered to determine the cost of setting up a gallery in Kolomiya or the funds needed to maintain the gallery in Ivano Frankiskt.

Implementing Mechanisms and Agents

As with all tourism opportunities, regional tourism development and promotional efforts need to be implemented to raise visitor demand. Efforts by the regional government to inform tourists of the availability of the artists' painting would be a prerequisite. AID could supply a small grant to either set up or maintain the galleries as well as encourage Peace Corps involvement after increases in demand are noted.

4.1.9. Opportunity 9. Production of Traditional Carpathian Rugs

Description of Business

Carpathian rugs are sold as tourist souvenirs in many parts of the region. Support for the Kolomiya Rug Company was specifically recommended by the EPAT crafts consultant as a business opportunity directly related to cultural tourism. The consultant reports that the company is capable of producing a product of high quality for a reasonable price. In addition, she concludes that the company has a trained work force with the possibility of expanding its business to related products such curtain fabrics and murals.

Customer Demand

No information was provided on current demand for this product.

Competition

Facts on competition for this business is unknown. The consultant specifically recommended the Kolomiya Rug Company as having good potential.

Resources Needed

To obtain a higher quality rug using natural colors, the factory needs additional equipment and staff. In addition, it is reported that management will need assistance in the hiring and training a sales staff for marketing and business plan preparation. To sell rugs to foreign tourists and to export to the international market, the company will need a fabric designer to assist both with pattern design and with color combinations.

Environmental Considerations

Environmental considerations do not appear to be an issue.

Constraints, Problems, Risks

Current foreign and domestic tourism demand is low. Ukrainians lack the money to buy traditional rugs and those who have the funds prefer imported products. To survive financially, the company will need to export some of their production and sell rugs to foreign tourists. At this point, the company lacks the needed business expertise.

Current methods of rug production use inferior rug dyes that bleed and bleach out in the sun.

Implementing Mechanisms and Agents

Local tourism business opportunities will be dependent on efforts of the regional governments and the Committee for Tourism to promote the region and build tourism demand. In addition, training in business planning and marketing should be supported possibly through Peace Corps support or the efforts of international NGO's such as the US based organization, Aid to Artisans (see consultant Anne Linden's report)

4.1.10 Opportunity 10. Additional Craft Industries Having Tourism-Related Potential

Several other opportunities were suggested by the EPAT crafts consultant. These projects all require additional research to determine their feasibility. They are listed below in abbreviated form to provide further examples of the range of businesses that could be developed and expanded with a revitalized Carpathian tourism market.

Description of Businesses

Liegniki (wool blankets) - Handmade heavy wool blankets could be made in natural colors -- either plain or with simple patterns. Such blankets currently sell for 4,000,000 kpns or about $21 US. Women working out of their homes produce the blankets. A cooperative would be needed to more effectively market the products.

Video-tapes of Ukrainian Singers and Dancers - Production of video-tapes of Ukrainian singers and dancers was suggested. Tapes prepared by the local TV station in Kosiv had interesting subject matter but substandard quality. Quality video-tapes may be produced only in Kiev. Information on business costs were not provided.

Production of Leather Purses - The EPAT crafts consultant reported that the locally made, metal studded leather purses have potential for the international markets including the foreign tourist market. Examples of the traditional purses are found in the Kolomiya's Museum of Hutsulshina. An artisan affiliated with Kosiv's College of Applied and Decorative Arts is engaged in the production of this craft.

A problem with the business is the fact that there is only one principal artisan in the Kosiv area actively making the purses. At this point, he works through the College and probably pays no

tax. If a business would be developed, he would be subjected to current tax codes which greatly restrict entrepreneurial activity.

Ceramic Tiles - The EPAT crafts consultant reports that decorative tiles with folk scenes and images of animals and birds are of a very high artistic standard. There remain numbers of trained potters in the region who could establish a tile business given the equipment and assistance in financial planning. The College of Applied and Decorative Arts in Kosiv is willing to rent space and a kiln to a private ceramic tile business, should one be set up. Business startup would require management and marketing training. Business costs to implement the project were not provided.

5. Recommendations and Actions for Tourism Development

Recommendations and actions in this section are divided into several sections. "Actions" is a section and each subsection under national and oblast actions are prioritized in the order that they should be carried out.

5.1 Tourism Marketing Program

Analysis of the current tourism situation indicates the need for a forceful marketing/promotional campaign. Competition with the neighboring countries and a poor international image indicate a lengthy effort. Marketing of the regional parks and protected areas is needed to support walking tours.

National assistance for regional promotion will not be available to local governments and small businesses in the near future. Efforts must be undertaken to provide local governments with a means to develop their own capacity. In addition, a separate regional identity is needed to emphasize the Carpathian's special qualities.

Publicizing the recommended activities and sites and targeting the information to the appropriate markets should be an AID priority. Promotion of the specialty markets to both tour operators and individuals will support many of the goals of the CEAP. Specialty groups will use local services and support local economies, thereby maintaining low financial leakage out of the communities. Promotion of the protected areas and their opportunities for tourism can ease the financial burden on area managers.

NATIONAL LEVEL

Action 1. ***In conjunction with oblast officials, organize a conference to develop a preliminary strategy to promote the Ukraine to the specialty travel markets.***

Cultural and walking tours have been identified as having good potential for the Carpathians. Obtaining input on these markets from the oblasts and from Western and Eastern European specialists and tour operators would provide needed input and could give direction for a practical national marketing strategy.

Activities

Recruit several Western and Eastern European specialists and tour operators with a knowledge of specialty markets.

Develop a unified strategy between the Committee and Carpathian oblasts and cities. The strategy should include target markets and a coordinated marketing plan..

Action 2. ***Open small information offices in Western Europe.***

For promotional purposes, the Committee plans to open tourism information offices in Bulgaria, Finland, America and Canada. Market studies indicate this as a well-needed promotional outlet. Before a decision is made, the Committee should consider the feasibility of including in this list one or more of the countries whose spending is high in other countries. These countries include Germany, Belgium, Denmark, Finland, the Netherlands, Sweden and the United Kingdom.

Activities

Use the information from the conference on specialty tourism and the preliminary strategy to make a decision on office location. Consider the feasibility of opening an office in the above countries.

Action 3. ***Support a Ukrainian organization to write a guide to bed-and-breakfast accommodations and farm tourism.***

External donors with advise from the Committee for Tourism should support the publication of a farm-tourism travel guide, providing information on the services and activities of participating farms. Opportunities for walking, skiing, horseback riding, and visiting cultural sites should be emphasized. Publications should describe the rating system used to evaluate the accommodations and list the services provided along with possible activities. The guide should follow the example of the Dutch publicatio, *"Holiday on hte Organic Farm,"* and the French and Spanish government publications advertising rural tourism opportunities. The guide should be distributed in the Ukraine, Central and Western Europe, Canada, and the US.

Activities

Enlist the advise and support of the Committee for Tourism for the publication of a farm-tourism travel guide. If and when they have the organizational capacity, fund the promotional center (see below) or the Association of Rural Tourism to research and design a basic guide. Distribute the guide both domestically and internationally.

OBLAST LEVEL

Action 1. ***Sponsor a series of meetings or a regional conference to establish unified tourism promotional policies. Include parks and protected area staff.***

Essential to improving the image of the Ukraine and the Carpathians is the development of a unified promotional strategy that projects a common regional theme. According to marketing reports, the theme should develop around the image of rich cultural traditions and outstanding natural beauty. This series of meetings should take place before the nationally organized

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conference to develop a preliminary strategy to promote the Ukraine to the specialty travel markets. Information from this report should be used to guide this action.

Activities

Finance and organize a series of meetings or, if possible, organize a regional conference to build consensus for a unified tourism image. From these meetings, develop an agreed-upon promotional strategy for the Carpathian region.

The results should be presented to the Committee for Tourism at the aforementioned conference. Use the regional theme in all promotional materials.

Action 2. ***Finance and establish a promotional center in Lviv.***

The Committee for Tourism officials endorsed the idea of using a Lviv-based printing firm for regional promotion work. In addition, the Committee may distribute promotional materials at trade shows. At this time, however, the Committee is short of resources and short-term support to carry out a more active campaign for small business development seems unlikely. This is also true of regional governments now constrained by financial deficits and inter-oblast competition. Programs such as Lviv's city tax to finance promotional activities, while a useful model, is limited to municipal efforts. In addition, while a regional association has been recommended and is an important long-term goal, the current situation in the oblasts involves a business community unwilling to widely participate in these efforts.

At this time, what is needed is a practical action that serves to initiate the first steps in the development process. Experience in Russia indicates that a separate externally-funded promotional center acting as a tourism chamber of commerce could provide the region a needed outlet and bypass the existing constraints. An unbiased organization that is free to work in all four oblasts and staffed with a Peace Corps or Executive Service Volunteer and a Ukrainian counterpart could be the short-term catalyst for unifying interest groups into a regional association.

Activities

Provide financing for an office with equipment which includes desk top publishing software and E-mail capability.

In 1996, identify and contract a bilingual Ukrainian with tourism experience and recruit a Peace Corps volunteer or retired tourism marketing executive to implement the program. Their responsibilities should include collecting and writing guidebook information and coordinating contacts with international tour operators. (See actions below)

Action 3. ***Begin to promote the regions' attractions in foreign guidebooks and the news media.***

Guidebooks are a useful tourism development tool and a low cost promotion option. Guidebooks, like the English "*Rough Guide*", the French "*Guide Rotard*", *and* the Austrailian-American *Lonlely Planet* series, seek new information and are published free of charge. Contacts

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with newspapers and travel magazines are equally important. These publications will also include free of charge, small pieces of information on a particular attraction or tourism route.

Activities

Have the promotional center staff carry this out this activity. If the center has not been funded, have a bilingual oblast or city staff member acquire copies of appropriate North American and European guidebooks and send editors information about the recommended sites and tourism opportunities in the Carpathian region. Oblast governments can accomplish this step on their own.

Develop mailing lists of European and North American travel publications and newspapers and send them the above information.

Include a current description of the regions' parks, their access routes, transportation, etc., as well as information on walking, skiing, and homestay possibilities in the local communities.

Immediately promote the idea of and add-on tour to Lviv oblast through Krakow.

Action 4. ***Research and publish a regional travel guide.***

Since existing guidebooks are out-of-date, detailed travel information about the region needs to be developed. While some of the information is still relevant, considerable up-to-date information needs to be added. A multilingual (Ukrainian, Russian, German and English) comprehensive guide to the area would satisfy this need. The guide should be a definitive tourist and travel reference containing brief descriptions of the various attractions, tourist routes, lodging options (complete with whom to contact and how), eating places, and detailed local maps.

Additionlly, the guide should be used to promote parks, protected areas and the local communities surrounding them. It should also provide an additional management tool for protected areas by educating visitors about environmental and management concerns.

The guide should be financed by a donor organization for approximately $25,000. The financing would include field research, publication and distribution costs. USAID has funded a similar guide to Lake Baikal and the experience gained on that project would provide a good base of knowledge for a project design in the Carpathians.

Activities

Collect detailed information on attractions and sites. Describe access routes, bed-and-breakfast accommodations, farm-tourism information opportunities, and information on local ground operators. The text should be written on a computer so that the information can be easily updated.

A timely and complete inventory of tourism attractions needs to be carried out. For instance, Soviet tourism attraction databases contained no churches which are important Carpathian cultural symbols.

For guidebook distribution, collect the names and addresses of all types of firms, e.g., specialty, general, student groups, international conservation groups, and earthwatch-type groups,

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in both Europe and the US with an interest in Eastern Europe. The guides should be distributed to foreign tour operators and to individual travelers.

Action 5. ***Use The Internet To Promote Carpathian Attractions.***

Once a comprehensive guide is written, selected information should be placed on the Internet. This is becoming the fastest and easiest means of reaching people who are searching for information in a destination area. The information is also inexpensive to update and keep current. The cost of a web page is inexpensive, although it is unclear at this point who would take responsibility for payment and maintenance. If a promotional center is financed, it should be directly involved in the development of Internet materials.

Activities

Send internet information to existing web sites with relevant specialties such as outdoor pursuits, parks, Eastern European travel, etc.

If financing and the technical capacity exists, develop and maintain a web page. Use the promotional center to facilitate the development of the sites. If the promotional center cannot help, determine if an existing web site would list the needed information.

Action 6. ***Write guides to the Carpathian parks and protected areas.***

Without its own promotional campaign, parks will lose desired tourism revenues. Assistance with marketing through support from the Committee of Tourism seems unlikely. Although the Committee may distribute protected area promotional material at trade shows, it could not be counted on for other promotional efforts. To fill this gap, the Ministry of Environment and Nuclear Safety should develop its own materials and publicize the parks to the markets it desires to attract. There are several opportunities to do this at a reasonable cost. One of the key responsibilities of a regional promotional center would be to assist with the publishing and distribution of these materials. Interviews and survey data point to commencing marketing efforts in the Carpathian National Park and the Carpathian Biosphere Reserve regions. Polish, Czech, Slovak, German, Belgium, Denmark, Finland, the Netherlands, Sweden and the United Kingdom specialty operators interested in walking tours should be targeted. Skiing operators and clubs in Poland and Russia should also be targeted.

Activities

For each park, write a 15 to 20 page guide on a computer so that it can be easily changed. Describe trails, with route descriptions, as well as possible tourist activities. Include information on protected area rules and current conservation activities. A starting point is with the Carpathian National Park and the Carpathian Biosphere Reserve which includes information on hiking and skiing around Hoverla Mountain.

If the promotional center has not been implemented, a foreign donor should assist the Ministry with the task of translation, publication and mailout. The document should be translated into English and Polish.

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Action 7. ***Form the Western Ukraine Regional Promotional Association.***

The formation of a regional association has been frequently recommended. If possible and prior to implementation of this step, the above actions should be carried out first and include organization of the regional promotional center. Second, as regional strategy and promotional activities are developed, the center should serve as a base for the new association. If coordination is achieved, the promotional center would then be turned over to the association.

Activities

Promotion center staff, along with local and oblast government officials and regional business men, should coordinate efforts to turn the center over to the association.

If a center is not financed, organization of an association is still recommended but should be implemented after a unified regional promotional image has been developed.

Action 8. ***Encourage and support travel writing on the region.***

Favorable travel articles promote a positive image of an area. Articles by travel writers is an initiative with potentially high returns in public relations. Writers are always seeking out new and relatively unexplored territory. The Carpathians would be a new region for Western travel writers and tourists.

Activities

- Contact Eastern European journalists from Poland, Slovakia, the Czech republic, and Hungary.
- Contact Western journalists writers, perhaps those on assignment in Eastern Europe.
- Contact Ukraine International Airlines to sponsor the press trip.

Action 9. ***Organization of a familiarization tour for West European tour operators.***

Survey data indicate that the image of the Ukraine is better among those who have visited than those whom have not. A familiarization tour for West and East European operators would continue the promotion of the region and also serve to introduce these operators to Ukrainian firms. Invite Polish, Slovakian, Hungarian and Czech operators with Western European contacts as well as those with an interest in multi-country tours.

Activities

Organize a two day conference to introduce the operators to Ukrainian firms.

Contact Ukrainian International Airlines for press trip discounts.

5.2 Institutional Capacity

Increasing institutional capacity in tourism-related fields is essential for both short and long-term development. Currently, national and regional officials would benefit from training

programs to broaden and deepen their knowledge of marketing, economic feasibility analysis, and park planning techniques.

NATIONAL LEVEL

Action 1. ***Advise and train Committee for Tourism marketing personnel on statistical data collection.***

An analysis of the tourism market is constrained because of a lack of statistical data. There needs to be a major effort to collect, analyze and report data at both the national and oblast levels. It has been reported that Committee for Tourism marketing professionals would benefit from additional training in statistical analysis.

The Committee's statistical database should include a system to track the activities or interests of tourists. The additional data could provide highly useful information to regional entrepreneurs and the offer of providing this information. This could be an additional way of enlisting the help of these private agencies.

Activities

Recruit a marketing consultant with a statistical background for a two-week training course at the national level.

Invite representatives from the regional oblast and interested city governments.

Action 2. ***Committee for Tourism personnel on economic feasibility analysis for tourism infrastructure projects.***

Committee plans reflect the need for a greater understanding in the economic analysis of infrastructure development. Training in this field would aid the Committee in selecting and prioritizing future project development.

Activities

Recruit a consultant to train staff in basic feasibility analysis, and investigate the possibility of recruiting a volunteer consultant form the International Executive Service Corps. Also, invite oblast staff, particularly from the Regional Economic Institute in Lviv, to participate in the training

Action 3. ***Strengthen the research capacity of tourism institutes and academic institutions.***

In Ukraine, both tourism institutes and universities need to broaden and deepen their knowledge of the tourism and recreation field. Tourism professionals stressed the need for more applied tourism research. Additionally, while training in the analysis of tourism data has been suggested, there is no government branch to specifically carry out other types of research. Tourism institutes and universities with related programs can offer the national and oblast governments assistance on solving complex tourism problems. For example, forecasting and preference studies would provide valuable tools for the region's tourism development. Ability to

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assist the Ministry of the Environment and Nuclear Safety and their efforts in park planning would be invaluable.

Activities

• The Committee for Tourism should provide small stipends for student interchanges for Kiev- and Lviv-based tourism, recreation institutes and universities interested in the subject.

• The Committee for Tourism should establish an agreement with one of the Kiev tourism training institutes to carry out research.

OBLAST LEVEL

Action 1. ***Provide training in the practical aspects of organizing specialty tours.***

Oblast leaders, park officials, and tour operators need additional information for organizing tourism to the specialty markets. While the aforementioned nationally organized conference would cover a portion of this information, the goal of this training course would be to outline and begin to develop the specific skills necessary for Carpathian ground operators.

Further, while training has direct application for potential ground operators, oblast tourism leaders and park officials should have knowledge of the practical aspects of the market and plan to attend. This training should be held immediately after the national conference on developing a specialty tourism market strategy.

Activities

• Organize a full week-long course.
• Recruit several Western and Eastern European specialists and tour operators with a knowledge of specialty markets. If the training can be coordinated with national activities, then the same consultant tour specialists can be used.
• Part of the training should involve a field trip to the High Tartras or to an area where nature-related and cultural tourism has been developed.

Action 2. ***Finance a two-week training course for park and protected area staff on park tourism management skills.***

Carpathian parks and protected areas will be a focal point for tourism in the future. Regional parks and protected areas staff, as well as national officials from the Ministry of Environment and Nuclear Safety need, and have requested, raining on visitor management policies and techniques.

Activities

• Hire a team from the U.S. National Park Service or U.S. Forest Service to train staff in the range of activities connected with visitor fee management, permit system management, concession management, low-impact visitor use techniques, and conflict resolution. Include

economists from the Ministry of Environment and Nuclear Safety during the module on visitor fees, permit systems, and concessions.

- Because of time constraints, the consultants should provide a complete range of material on these subjects.
- Translate the materials into Ukrainian.
- Use the Carpathian National Park and the Carpathian Biosphere Reserve.

Action 3. ***Carry out a week long training course on the Limits of Acceptable Change (LAC) system.***

The Limits of Acceptable Change system has been found to be an effective system to address the impacts caused by visitors. The system can be used to monitor environmental as well as social and economic impacts.

Activities

- Hire a foreign consultant/trainer for a week-long training class for Ministry officials and park and protected area staff.
- Ensure that the course has a field component.
- Use the Carpathian National Park and the Carpathian Biosphere Reserve as the training bases for the activities.

5.3 Policy

NATIONAL LEVEL

Action 1. ***Reduce the value added tax for tourism-related businesses.***

The stakeholders workshop and round-table meetings recommended that the value added tax (VAT) be reduced. Other countries have reduced the tourism VAT to meet long-term economic development goals. Several European countries have offered a reduction in the tax to encourage rural and farm tourism activities.

A crucial policy problem arises when one sector of the economy is provided with tax relief and others are not. Because there has been no in-depth analysis of the Carpathian regional economy, it would be difficult to say that tourism is the industry that would produce the most economic gain from this type of relief. For the immediate future, one way to compromise is to use the tax privilege as an experiment and grant tax privileges to only certain sectors of the tourism industry. These could then be monitored to determine the results.

Activities

- Establish an inter-ministerial legal drafting committee with representatives from the Ministry of Finance, Justice Economy as well as the Committee for Tourism. The drafting committee should consider what activities will be eligible, the percentage of VAT reduction, and how long the reduction would apply. At this point, unified policies on the types of tourism that will be encouraged both nationally and in the region are still undecided. Only when the Committee

decides on the types of tourism it wants to encourage can recommendations be made on which sectors of the tourism industry will receive the tax relief.

- The drafting committee submits the draft legislation to Parliament.
- Monitor the results of the tax cut.

Action 2. ***Follow the policies of the neighboring countries for reducing restrictions on tourist visits.***

Current visa policies restrict the development of tourism. Tourism is a highly competitive industry and any impediment placed in the path of a tourist or tour operator will reduce visitor levels. While other factors such as price and distance are also involved in this equation, the Committee of Tourism should attempt to do as much as it can in the short-term to facilitate travel.

Activities

- Eliminate the voucher system requirement and implement visa-free travel to Ukraine for up to 30 days.

Action 3. ***Develop loan policies and programs to assist the development of tourism related businesses.***

Obtaining low-interest credit is a key need for expanding tourism related businesses. To encourage the industry's development, it would be useful for USAID in coordination with the Committee for Tourism to develop recommendations on the types of tourism infrastructure and equipment loans it would prefer to see financed. For example, priorities would be given to bed-and-breakfast accommodations within a certain distance of a national park.

Activities

- Write loan tourism policy guidelines and outline the decision-making process to determine who would qualify for assistance for tourism related loans.

Action 4. ***Amend the Committee for Tourism's "National Program of Tourism Development to the Year 2005" to reflect current market trends and needs.***

To reflect the current economic realities and the information gathered for this report, the Committee should consider amending the plan entitled *National Program of Tourism Development to the Year 2005.*

Activities

- Use this report and the reports from the World Bank and Lviv city government to set priorities on the projects outlined in the plan.

- Collect marketing information and evaluate accommodations according to the preferences of the various types of visitors who come to the region. The ability of accommodations to meet the preferences of differing clientele will effect the marketability of the region.
- Incorporate marketing information into regional hotel development plans.

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Action 5. ***Establish park entrance and other visitor fee policies.***

At the Ministerial level, uniform fee policies and structures do not exist. A unified process of establishing fee policies will require Ministry and park administrators to think through the level of resources needed to support protection goals and administrative work. Once this is found, park administrators can then better determine the extent of the tourism program they desire and the level of fees needed to support these goals.

Activities

- Provide translated information to national staff and managers on visitor fee decision making.
- Organize and finance a seminar on these methods for area managers.
- Trace visitor patterns in parks and protected areas.
- Implement a fee system in conjunction with a strong public awareness campaign. Also, with a fee, people must receive, or perceive, they are receiving some benefit for their payment. This could be accomplished by offering a park brochure or medallion or by clearly stating that the funds are being spent on preserving the parks for the benefit of the country.

5.4 Infrastructure - Business Development

NATIONAL LEVEL

Action 1. ***Inventory hotels and resorts in the Carpathian region to determine existing conditions and occupancy.***

While a large percentage of hotels, resorts, cabins and lodges are in a state of decline, some are just surviving and while others are are successful. An inventory of current conditions is necessary to better determine what tourism itineraries can be promoted for the short-term without additional construction and reconditioning. In coordination with the Committee for tourism, the oblasts should undertake this task. They should use the standards the Committee for Tourism is currently developing.

Activities

- Inventory and classify hotels and other relevant accommodations first in the Lviv and Zakarpatska oblasts. Efforts should be concentrated in the Hoverla Mountain region and Kosiv areas.
- Inventory and classify hotels and other relevant accommodations in Ivano Frankivsk and then Chernivitsy oblasts.
- Match walking and cultural routes and other itineraries around the accommodations found to be in the best condition.

OBLAST LEVEL

Action 1. ***Place signs in English and other appropriate foreign languages at airports, rial an bus stations.***

Signs written in English and other European languages could be easily produced and will help to facilitate ease of travel.

Activities

- Coordinate with oblast and city governments to design and produce simple and inexpensive signs for airports, rail and bus stations.

Action 2. ***Finance the construction of small three-star hotels, two-star hotels, and ski lodges. Also consider financing bed-and-breakfast, homestay, and farm tourism improvements. When the tourism market improves, finance the tourism-related businesses such as ground operator businesses mentioned in the previous section.***

Tourism demand will follow improvement in tourism policies and infrastructure development. Three-star hotels (and to a lesser extent, two star hotels) and small ski lodges were recommended for development. As a potential lender, USAID and other foreign donors should consider this class of infrastructure as potential projects.

Activities

- Do not offer loan assistance until there is a direct effort at the national and local levels to implement actions that would influence the demand to the Carpathian region and participation in potential markets.
- Once actions have been taken, begin loan activity in the Kosiv, Lviv, and Uzhgorod areas.

Action 3. ***Develop rails and shelters in parks and protected areas.***

Walking tours have been identified as a potential market. Currently trails need repair and signage both in Ukrainian and other European languages. Maps are needed to guide visitors. Shelters exist but their conditions are unknown. Reports from the field indicate most need repair.

Activities

- Trail system evaluations, particularly in conjunction with the trans-European trail initiative, should be investigated. Regional governments may be able to receive financing from the European Community.
- Park and protective area staff should concentrate on upgrading a limited number of well-maintained trails with European standards.
- Contact the staff at the High Tatra National Park for advice.
- Construction of trails should include a series of loop trails for nature hiking.

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5.5 Legal

Action 1. ***Research other Ukrainian laws related to tourism development and write action-oriented recommendations on how these laws constrain or encourge tourism development.***

Additional legal research on the 1995 Tourism Law is needed to determine where legal drafting is necessary to cure problems of vagueness. A clear understanding of the law as it relates to other Ukrainian laws is also necessary for future implementation of complementary legislation.

Activities

- Read laws on tourism in conjunction with other laws that impact tourism.
- Determine if any conflicts exist among these laws.
- Write a paper outlining conflicts and recommended follow-up legislation.

5.6 Tourism Investment

Action 1. ***Bundle a series of attractions and accommodations into an investment package for international banks and lending institutions.***

International capital will be difficult to locate. Based on previous recommendations, larger and smaller-scale infrastructure projects bundled together to form a complete investment package may be more appealing to international lenders. National and Carpathian tourism officials need to devise an investment strategy that develops this concept. Several key attractions, their complementary infrastructure (including hotel accommodations), trails, and visitor centers should all be included. A detailed feasibility study should tie together the whole project.

This action assumes the following: (1) recommended inventories previously carried out; (2) recommendations on marketing strategies at the national and regional levels developed; and (3) a data collection system in place tracking tourism demand and preferences.

Activities

- Approach institutions like MIGA and OPIC to determine investment requirements.
- Seek international support for work on the feasibility study.
- Use the information gathered from the previous recommendations to develop a realistic investment strategy that seeks funding for the outstanding attractions. (E.g, the Carpathian National Park, a larger hotel needing reconditioning, smaller surrounding hotels at key tourism junctures, camping areas, trails, and visitor centers.)

5.7 Environment

OBLAST LEVEL

Action 1. ***Supply park staff and tour operators specializing in outdoor activities with information on environmentally sound techniques for managing tourists.***

Park and protected area staff and tour operators do not have the latest information on low-impact techniques for managing visitors. Much research has been carried out in recent years on techniques to mitigate the environmental problems connected to outdoor recreation. These techniques and research publications should be readily available to these professionals.

Activities

Finance and distribute translated information to tour operators and park staffs on low-impact, environmentally-sound techniques for managing tourists.

Action 2. ***Implement an LAC program in the Carpathian National Park or the Carpathian Biosphere Reserve.***

Implementing a program in one of these areas can act as a pilot program for the rest of the region.

Activities

- Use the information obtained during the training sessions to implement the program.
- Develop an LAC task force in conjunctin with tour operators and neighboring communities.

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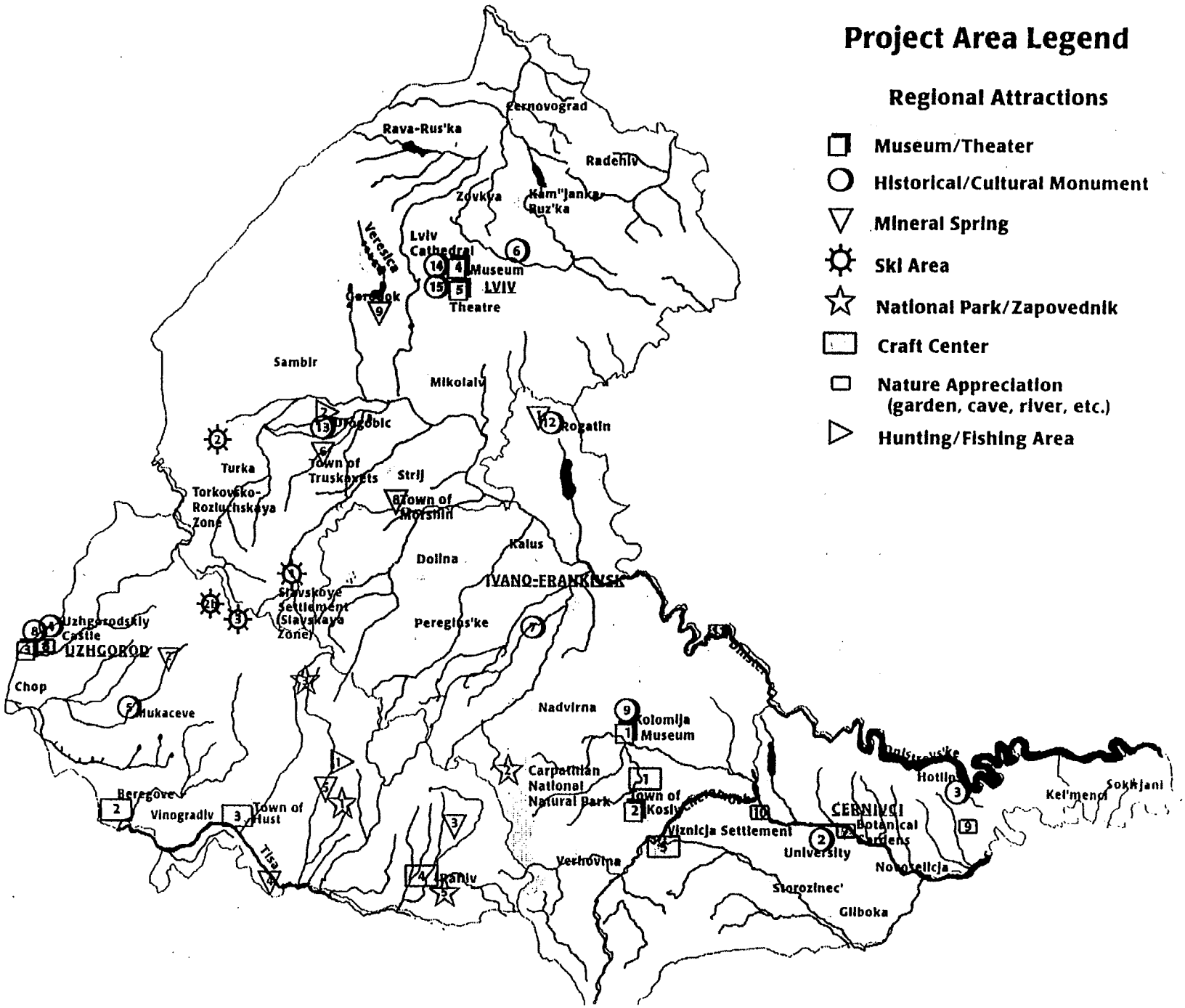
Project Area Legend
Regional Attractions
Museum/Theater
Historical/Cultural Monument
Mineral Spring
Ski Area
National Park/Zapovednik
Craft Center
Nature Appreciation (garden, cave, river, etc.)
Hunting/Fishing Area
Rava-Rus'ka
Chernovograd
Radehiv
Zovkva
Kam"Janka-Buz'ka
Lviv Cathedral
Museum
LVIV
Theatre
Veresica
Sambir
Mikolaiv
Drogobic
Rozatin
Turka
Town of Truskavets
Strij
Torkovsko-Rozluchskaya Zone
Town of Morshin
Dolina
Kalus
IVANO-FRANKIVSK
Slavskoye Settlement (Slavskaya Zone)
Peregins'ke
Uzhgorodskiy Castle
UZHGOROD
Chop
Mukaceve
Nadvirna
Kolomija Museum
Carpathian National Natural Park
Town of Kosiv
Viznicja Settlement
Beregove
Vinogradiv
Town of Hust
Tisa
Verhovina
Ivaniv
CERNIVCI
Botanical Gardens
University
Hotin
Kel'menci
Sokirjani
Novoselicja
Storozinec'
Gilboka

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APPENDIX 1.

MAP TO UKRAINIAN ATTRACTIONS BY NUMBER

NATURAL FEATURES

1. The Carpathian Public Preserve, Tyachesky 1a. The Carpathian Public Preserve, Khustisy

2. The Carpathian National Natural Park

3. The Sinivir National Park, Mezhgorsky

4. The Bradulsky Reserve, Tyachesky District

5. The Svidovetsky Reserve, Rahiv District

6. The "Gorgany and Tavpishirka" Reserve Zakarpatskan District

7. Botanical Gardens of the Former Residence of the Metropolitans of Bukovina

8. Botanical Gardens of Uzhgorod State University

9. The "Zolushka" Cavern, Kryvaya Natural Boundary, Novoselitsky District

10. The Cheremosh River, Chernivitsy

11. The Dnester River, Chernivitsy

HUNTING AND FISHING AREAS

1. The "Karpaty" Hunting Area , Zakarpatska Region

2. The Maydan" Preserve and Hunting Area, Lviv oblast, Turkovsky

NATURAL MINERAL SPRINGS

1. Village of Cerche

2. Village of Sinyak

3. Village of Kvasy

4. Village of Shayan

5. Village of Soymy

6. Town of Truscovets

7. Settlement of Skhodnitsa

8. Settlement of Morshan

9. Settlement of Velikiy

SNOW SKIING AREAS

1. The Slavka Zone, Lviv Region, Skolesky District

2. The Torkovoka-Rozluch Zone, Rozluch 2a. The Torkovska-Rozluch Zone, Volovets

3. The Borzhvsky Mountain Pass, Zakarpatska Region

HISTORICAL AND CULTURAL MONUMENTS

1. The Complex of Caverns, Ivano Frankivsk, Dolinsky District, Village of Bubnishche

2. Chernovitsy State University (Former Residence of the Metropolitans of Bukovina)

3. The Khotin Stronghold

4. Uzhgorod Castle, Uzhgorod

5. "Palanok" Castle in Mucacheva, Zacapathia

6. Olessky Castle, In Lviv Oblast

7. Manyavsky Monastery, Bogorodchansky

8. The Cathedral of Uzhgorod

9. Church of the Assumption, Village of Novoselitsa

10. Church of St. Nikolas, Village of Goryany

11. Church of Annunciation, Town of Kolomiya

12. Church of Saint Spirit, Town of Drogobych

13. Architectural monuments in the Town of Drogobych

14. The Lviv Cathedral

15. Church of Saint Spirit, Lviv

MUSEUMS AND THEATERS

1 The Kolomiya Museum of the Hutsulshina

2. The Hutsulshina Kosiv Production and Artist Association - (group's crafts are the attraction)

3. Zacarpathski Museum of Folk Architecture, City of Uzhgorod

4. Museum of Architecture, Lviv

5. State Theater of Opera and Ballet, Lviv

FOLK CRAFT CENTERS

1. Town of Kosiv

2. Town of Beregovo

3. Town of Khust

4. Town of Rahiv

5. Settlement of Vyznitsa

Environmentally Sound, Sustainable Tourism and Business Development in Ukraine (Carpathian Region)

Delivery Order 37

NEEDS ASSESSMENT REPORT

Final Report

September 1996

Environmental and Natural Resources Policy and Training (EPAT) Project

Winrock International Environmental Alliance

1611 North Kent Street, Suite 801, Arlington, Virginia 22209 USA

Phone: (703) 525-9430 Fax: (703) 516-0481

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NEEDS ASSESSMENT REPORT

PART I

CONTRIBUTING AUTHORS:

Zbigniew Bochniarz, University of Minnesota, Minneapolis, MN *(Institute for International Research)*

Paul Ferraro, Washington, NC *(Winrock International)*

Eugene Gibson, Attorney at Law, Washington, DC *(Management Systems International)*

Robyn Goodkind, Project Manager, Management Systems International, Washington, DC

Arthur Pedersen, Wildlands Recreation and Tourism Planning, Austin, TX *(Winrock International)*

Bertram I. Spector, Management Systems International, Washington, DC

Svetlana Volskaya-Winbourne, Management Systems International, Washington, DC

NEEDS ASSESSMENT REPORT

PART I

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9. Collecting Background Information on the Physical Factors Effecting Tourism in the Carpathians, *Nikolay Pavlovich Krachilo*

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11. Writing a Brief History of Tourism in Ukraine and the Carpathian Region, *Nikolay Pavlovich Krachilo*

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13. Social and Demographic Conditions in the Carpathian Region, *Lubov T. Shevchuk*

14. Macroeconomic Data Analysis, *Michael Zienchuk*

15. Preliminary Macroeconomic Policy Analysis, *Marcin Luczynski*

16. Institutional Capacities and Training Needs Related to Sustainable Tourism and Eco-efficient Business, *Sergey Stegny*

17. Financial Mechanism for Environmentally Sustainable Tourism Investment, *Marcin Luczynski*

18. Privatization Process and Opportunities for Development of Small Tourism-related and Eco-efficient Business in the Carpathian Region, *Michael Zienchuk*

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27. Designing Training Program for Major Stakeholders of the Action Plan for the Carpathian Region, *Randal Zimmermann*

28. Models of Tourism Regional Agreements, *Kristina Koch*

1. INTRODUCTION

This report presents a situational assessment that examines the social, economic, business, legal, environmental, and international conditions and requirements for development of environmentally sound and sustainable tourism and other businesses in the Carpathian region of Ukraine. It provides the basis of information and analysis from which an Action Plan will be developed.

The report is produced by the Environmental and Natural Resources Policy and Training (EPAT) Project, which is implementing a project for the United States Agency for International Development/Ukraine entitled "Environmentally Sound, Sustainable Tourism and Business Development in Ukraine (Carpathian Region)." The objective of this short-term project is to produce a Carpathian Eco-tourism/Eco-business Action Plan (CEAP) in collaboration with Ukrainian counterparts and stakeholders at the local, regional, and national levels.

This Needs Assessment Report (NAR) represents the first phase of the EPAT project and the first step in development of the CEAP. Nearly thirty Ukrainian and American experts provided EPAT with reports on current conditions for economic development in the Carpathian region, focusing on socio-economic factors, international and legal issues, eco-tourism and eco-business, and environmental concerns. These reports, in their entirety, form Part II of the Needs Assessment Report and provide a detailed situational assessment of the region, laying the groundwork for development of the action plan.

Part I of the Needs Assessment Report consists of a summary prepared by the EPAT expatriate team members that offers the information from Part II in a condensed and focused presentation. The summary relies primarily on data from the Part II reports, but was supplemented with additional research when required. Moreover, it uses the situational data to draw implications and develop recommendations for the development of eco-efficient business and tourism in the Carpathians. The NAR does not purport to be a comprehensive research effort on the subject, but seeks to represent the existing knowledge and expertise of a large pool of diverse Ukrainian and American professionals and stakeholders.

Acknowledgment is owed to the Ukrainian authors who contributed so significantly to this report and thus provided the backbone to their own Action Plan. The table of contents for Part II, which is presented in this volume, identifies each author. We are enormously grateful for their assistance.

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2. SOCIAL AND ECONOMIC CONDITIONS

This chapter examines the current state of social and economic conditions in Ukraine, in general, and in the Carpathian oblasts, in particular. Social conditions are described and analyzed in terms of the demographics, social structure and employment patterns. Economic conditions are assessed in terms of the status of privatization, trade liberalization, and taxation, pricing, monetary, industrial and energy policies. The institutional capacity of government and the private sector to deal with future economic development programs is also explored.

SOCIAL AND ECONOMIC CONDITIONS

Geographic allocation and demographic conditions

The Ukraine has over 52 million inhabitants and is among the largest of European countries. The Carpathian Region (CR) of the Ukraine accounts for 9.4 % of the total area and, in 1995, it contained about 6.5 million, or 12.5 % of the country's total population. The CR is characterized by a higher birth rate than is found in the country as a whole (13.8 per thousand in the CR compared to 10.0 per thousand countrywide). The region has a lower death rate than the nation as a whole (10.9 per thousand as compared with 14.7 per thousand for the whole country). In general, the declining trend of population growth for the whole Ukraine (-4.7 per thousand) contrasts with positive growth in the CR (+2.9 per thousand). However, infant mortality rates in the CR were higher than the country's average.

Social structure

The share of urban population in the CR (50.2%) is lower than for the whole country (67.9 %) in 1995. However, the growth of the urban population in the CR was almost two times higher (206%) than in Ukraine (109%) during the period of 1959-1995. This growth has come about from both rural to urban migration within the region and migration from other regions. The rural population of Ukraine has decreased by 26.0 %, and in the CR only by 2.9 %. In the case of the Zakarpatska oblast, the rural population has increased by 18.2 % during that period.

Educational level and employment structure

According to 1989 data, over 10% of Ukrainians (older than 15 years) attained higher education. This contrasts with 11% in Lvivska, 8.3% in I-F, 7.6% in Chernivetska and 7.2% in Zakarpatska. About 32% of adult Ukrainians lacked secondary education. However, in CR these figures are higher -- 37% for Zakarpatska and 33% in Lvivska oblasts. Thus, the region lags the rest of the country in educational achievement.

Over 60% of the labor force was employed in extracting and manufacturing industries, which suggests that the service sector is underdeveloped. This employment pattern is fairly typical for low income countries, and particularly for former centrally planned economies. The Ukrainian composition of non-farm employment in 1989 was --55.4% blue collars, 26.5% white collar. With the exception of Lvivska oblast, these indicators were even more extreme for the CR, suggesting the likelihood that restructuring will entail major adjustments in labor markets. The CR region is characterized by a relatively high employment in R&D activities. Over 170,000 and 95,300 persons were employed in the medical and R&D areas, respectively, in 1989.

Data on proprietorship is poor. The 1994 data on the number of enterprises in different types of ownership suggests that over 53 % of all industrial enterprises of Ukraine are held under state ownership (controlled by government), 30 % in municipal and collective farms, and 17 % in mixed property, including 14 % of leased property. In the CR, the share of state enterprises was significantly larger, ranging from 73% in the I-F oblast to 41% in Chernivetska.

According to official data, at the beginning of 1995, the level of unemployment was 0.29 % in the Ukraine and 0.62 % in the CR. Since that time these numbers have significantly increased but are still relatively low -- about 1% for the country and about 5% for the Region. Independently sponsored studies report higher levels of unemployment and estimate levels of about 20% in the CR.

Incomes and consumption patterns

Official income statistics are often questioned because they do not take into account the huge gray and black market economies that contribute significantly to the real GDP (between 35-50% of economic activities are not accounted for officially). However, domestic and foreign sources indicate that the level of real income is very low (around or even below the minimum living standards) and has significantly decreased over the last 5 years. Moreover, income differentials appear to have significantly increased. In 1990, only 18.2 % of population had income lower than a minimum consumption budget. In 1993, this estimate rose to 85 %. The CR is characterized by significantly lower wages and salaries, than is average in Ukraine.

Official statistics indicate that in 1994 Ukrainians spent (in percent of aggregate income): 64.7 % of income for food, 14.3% for other consumer goods and services, 1.4% for housing rentals, and 8.9 % for other purposes. These facts indicate a limited potential for generating domestic capital from savings and an urgent need to attract foreign capital. They indicate also the limited effective demand for services , including tourism, from Ukrainian households.

ECONOMIC CONDITIONS

Major Economic Challenges

During the past four years, Ukraine has experienced the typical problems of transition. For the first time, Ukrainian policy makers have been able to exercise full authority over the development of their country. Since independence in 1991, the economy has been suffering major dislocations and disruptions, as it moves from a centrally planned system, to a market based system, regulated from Kiev. What appears to have affected Ukraine's development most have been external price shocks, as well as an internal lack of administrative capacity in handling at one time all the measures, both political and economic, which are required to create an independent country.

The external shock of a massive price hike in vital energy imports from Russia and Turkmenistan led to a large disruption in the balance of payments situation, in part because currency realignment did not occur and because of policy which attempted to dampen the prevalence of world market prices in the domestic economy. Prior to independence, the internal price for energy, mostly natural gas and oil, was at approximately 10% of world prices. Then, shortly after independence, Ukraine's economy was hit by a massive hike in the price of energy imports, where Ukraine imports 75% of its domestic natural gas requirement and over 90% of its domestic oil requirements. As prices were moved to reflect world levels, Ukraine's balance of payments became

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extremely negative, while its industries began to suffer heavily and output began to decline dramatically, even in the presence of energy subsidies.

The situation worsened, as Ukraine introduced its own currency, the karbovanets-coupon at the end of 1992. The karbovanets-coupon quickly began to devaluate against other regional currencies, including the Russia ruble. Associated with this nominal devaluation, output fell and inflation reached hyper levels. The years 1992 and 1993 saw a massive nominal depreciation of the karbovanets-coupon, while both years were hyper-inflationary, as consumer prices rose by over 10,000% in 1993. The situation forced the government to take drastic measures. Newly elected President Leonid Kuchma introduced, on October 11, 1994, a strict economic reform program which was adopted and ratified by Parliament, and approved by the International Monetary Fund. IMF approval led to a Systemic Transformation Facility loan worth 700 million USD. The IMF followed this support by granting Ukraine, in March 1995, a full Standby Agreement loan, worth 1.5 billion USD, which Ukraine is currently extending to the end of the 1996 calendar year.

The second difficulty which plagues Ukraine today, is the lack of proper and effective administrative capacity and the institutions to manage and implement policy. The transition to a market economy has been extremely difficult, because the country has had to build, from the ground up, many ministries including a Ministry of Finance and a National Bank, as well as other branches of government. This is made even more difficult when public authorities and civil service are inexperienced in carrying out the activities of these new institutions. Initially, the natural tendency for the government of Ukraine was to reinvent the wheel, in that they recreated most of the structures and branch ministries which existed in Moscow at the All-Union level, and transposed them onto the administrative structure of the Ukrainian Government. Thus, rather than building new government ministries and bodies which would correspond more closely to the new circumstances, it recreated Soviet-style structures. This has made the transition period much more difficult, as branch ministries and Parliament, as well as local authorities, have been fighting to secure their status and privileges by interfering with the privatization process.

During the first two years of independence, foreign investment was small. Much of the difficulty has to do with complex tax laws, registration and licensing of foreign investment which remains overly bureaucratic; little to no progress has been made in privatizing land and the business environment continues to change on an ad hoc basis, as new laws and regulations, from three branches of government (Parliament, Cabinet of Ministers and President's Administration), are issued almost randomly. Over the past several years, about 750 million USD of foreign investment has been registered in Ukraine. Most of this investment came from the United States and Germany, which have registered 22.9% and 17.3% of total foreign investment in Ukraine to the end of 1995. Most of this investment went into the machine building and metal processing industry (71.8 million USD), food processing industry (60.4 million USD), and internal domestic trade (48.4 million USD).

Privatization Progress Report

Legislation supporting privatization began in 1991 and 1992 with the Law of Privatization of State Property of State Enterprises; the Law on Privatization of Small State Enterprises, and the Law on Privatization Certificates. For the first twelve months after the introduction of this legislation, the merger progress made in restructuring state enterprises was not enough to break the overwhelming role of the state in the economy, where more than 90% of the output of remained under state stewardship by the end of 1994. In October 1994, the President issued a series of decrees aimed at

speeding up the privatization process, in both the small and medium/large scale sectors. A key element of this program involved a concentrated effort in privatizing a critical mass of medium and large scale enterprises, along with a greater effort to finish the privatization of small scale enterprises by the end of 1995. This marked the first serious political approach to the privatization issue. Half way through 1995, it was evident that the privatization process was falling behind schedule. By the end of 1995, privatization speeded up. The second half of that year and the beginning of 1996 saw a strong breakthrough in various bottlenecks to privatization.

Due to the lack of data, it is unknown which sectors were privatizing most successfully. Neither the State Property Fund nor the Ministry of Statistics has monitored privatization in this way. This makes it very difficult to track the effectiveness of the privatization process, and to track developments, thus making it difficult for policy makers to realize which privatization policies are more effective than others.

In 1995, Lvivska was the most active on the privatization front, where at the end of 1995, 1,714 (10.5% of the total for the country) enterprises have been transferred from the state to the private sector. The other three CR oblasts combined have only privatized 1,033 (6.3%) enterprises to date. The region as a whole has privatized 2,747 enterprises thus far, which is 17% of all privatized enterprises in the country. In per capita terms, privatization in the Carpathian region has been higher than the average for the country. From this perspective, Zakarpatska oblast has been the weakest in terms of its privatization process, while Lvivska oblast has been the most successful.

The list of large scale enterprises approved by the Cabinet of Ministers for mass privatization via certificate auctions consists of 7,987 enterprises. Of these, 929 have been approved from the Carpathian Region, which is 11.6% of the total for the country. Of these Carpathian enterprises, 44% are from the agro-industrial complex, while 18% are non-restructured enterprises, fully state owned. Of these enterprises, only 266 are in the last stage of the privatization process. This is only 26.8% of the Region's approved firms. Thus, while obstacles remain, the rate of privatization has increased and the commitment to transforming the economy appears to be growing.

EVALUATION OF POLICIES AND INSTITUTIONS

Taxation Policy

The basis of the taxation system in Ukraine is the Budgetary Law, the Act on Taxation Liability and the Act on Territorial People's Councils. The above mentioned legal acts determine the types of taxes transferred to the central budget and local budgets. In 1991, producing and commercial entities transferred to the State Budget turnover tax equal to 5% of the value of transactions. Moreover, personal income tax rates started at 13%, and corporate income tax rates ranged from 45% in 1991 and 45% to 35% in 1994.

The reform of the taxation system started with legislative changes concerning indirect taxes. On 18 December 1991, a Law on Excise Tax, and on 20 December 1991, a Law on Value Added Tax were adopted. One common tax rate of 28% was introduced. Later changes pertained both to the list of exemptions and the tax rate. The Act on Excise Tax was imposed on 21 goods considered to be luxury goods. The list comprised among others: liquors, tobacco products, jewelry, cars, carpets, sugar and chocolate. Tax rates varied from 10% to 85%.

On 21 February 1992, the Act on Taxation from Corporate Income of Enterprises and Organizations came into force. Corporate income tax was charged from the gross income of an entity, understood as profit from operating activities increased with the value of the remuneration fund. The tax rate amounted to 18%. Due to political instability, this and other taxation acts were changed contributing significantly to a poor business climate and tax avoidance.

The Decree on Personal Income Tax issued by the Cabinet of Ministers on 26 December 1992 replaced the former Act of the Ukrainian Soviet Socialist Republic from 1991. The Decree introduced a progressive income tax formula based on the value of minimum wage. Tax ranges and rates were introduced as follows:

- income equal to or lower than the minimum wage was exempted from taxation,
- income above the minimum wage, up to the equivalent of 10 minimum wages - 10% of the amount above the minimum wage; above the equivalent of 10 minimum wages up to the equivalent of 20 minimum wages - tax from 10 minimum wages plus 20% of the amount above 10 minimum wages; above the equivalent of 20 minimum wages up to the equivalent of 30 minimum wages - tax from 20 minimum wages plus 35% of the amount above 20 minimum wages; income above the equivalent of 30 minimum wages - tax from 30 minimum wages plus 50% of the amount above 30 minimum wages.

The tax rate on dividends was set at 15%. The decree included a list of exemptions from personal income tax, which defined privileged groups and the amount of income exempted from taxation. Local authorities were entitled to extend the list of exemptions. According to the new law, income from agricultural activity was not subject to taxation.

On 28 December 1994, the Parliament adopted the Act on Taxation from Profits of Enterprises which was to come into force on 1 January 1995. The tax basis consisted of gross profit, not gross income as was the case formerly. A large section of the Act is devoted to the definition of production costs which have an impact on the amount of generated income. The Act introduces a new concept - goodwill, standing for the actual value of an enterprise. Entities with the participation of foreign capital, formed after 1 January 1995, were not entitled to a five-year tax holiday (this privilege applied solely to enterprises established before the day the new taxation law came into force). The Act introduced a basic tax rate of 30%. A rate of 45% was applicable to brokerage activity, a rate of 30% - to the banking sector (instead of the formerly applicable 55%), while a rate of 60% was applied to lotteries, casinos, and other gambling activity. The Act also introduced some types of activity exempted from taxation -- the whole agricultural sector (fully exempted) and enterprises which employ handicapped people (entitled to a reduced tax rates).

Clearly, the allowance for exemptions and other special allowances decreased the efficiency of the existing system. On 31 May 1995, a Decision issued by President Kuchma canceled all tax relief granted in Decrees of the Cabinet of Ministers; however in August 1995, some of the relief was re-introduced. The high rates of personal income tax encourage individuals to conceal their true income which further contributed to a fall in tax collections.

Monetary Policy

One of the major foundations of Ukrainian monetary policy is the National Bank of Ukraine (transformed from the Ukrainian branch of the USSR State Bank) based on the Act on Banks and

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Banking Activities adopted in March 1991. The Act sanctioned the principle of two levels of the banking system -- the central bank and commercial banks -- and the subordination of the National Bank of Ukraine (NBU) to the Parliament. Unfortunately, this proven approach in traditional democracies has not worked in Ukraine. Due to this subordination, the Parliament pushed the National Bank by issuing special resolutions to finance subsidies to agriculture and the fuel and power complex, the Parliament demanded financing of the spring sowing campaign, as well as pay raises demanded by striking miners.

The end of 1993 was a milestone for monetary policy with the appointment of a new President of the NBU, who immediately executed a dramatic cut in the issue of money. He also succeeded at limiting credit extended by the country's commercial banks.

In 1994 and 1995, the Central Bank implemented its policy aimed at reducing inflation figures, strengthen its position and defend the autonomy of its monetary policy. The Central Bank managed several times to cushion the effect of Decrees of the Parliament concerning the issue of credit, and succeeded in reducing the increase in money supply in the Ukrainian economy.

The crucial problem in the operation of the NBU has been crediting governmental expenditures. In spite of the prohibition to finance the deficit of the central budget, the Ukrainian Central Bank has been covering up the difference between revenues and expenditures of the State. As well, the NBU has failed to regularly initiate necessary changes and amendments in legislation, and to improve the institutional basis for realization of financial policy.

Taking into account the lack of a legal basis which could guarantee the full autonomy and strong position of the Central Bank, and taking into consideration the many pressures exerted on the Bank), the Bank's policy should be assessed as relatively efficient. Since the end of 1993, the NBU has been the only authority to consistently aim at stabilizing the macroeconomic situation. The Bank's most important achievements include the sustained stable exchange rates of the domestic currency and its unification and the sustained control of inflation figures (although these continue to be very high). The operation of the NBU has contributed to the introduction of a stable, convertible national currency. Unfortunately, these actions have not been sufficiently supported by a responsible fiscal policy or legislative decisions.

Fiscal Policy

The financial policy of the State between 1992 and 1995 was implemented through the State budget which consisted of the central budget, local budgets, and extra-budgetary funds in the traditional sense, and additionally made use of other specific mechanisms of financing external to the budget, particularly with respect to public expenditures. The State budget is characterized by a four-level structure associated with the administrative structure of power. The State budget consists of: 1) the central, republican budget and local budgets; 2) district (oblast) budgets; 3) budgets of regions and towns; 4) city quarter budgets and corresponding village budgets. In practice, however, the structure is limited to three levels as city quarter budgets and corresponding budgets of country communities are usually not separated from regional budgets.

The distribution of functions financed by the central budget and local budgets did not remain stable over the considered period. The detailed distribution of revenues from central taxes to local and central budgets were executed by means of yearly negotiations held during the adoption of the Budget Act. The basic fields of activity financed by local budgets include: municipal economy,

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social insurance, housing, education, culture and sport. The central budget financed national defense, central administration, administration of justice, public safety; it covered up costs of privatization and many subsidies addressed directly to entities of the State economy. The source of revenues of the central budget consists of four main taxes: value added tax, corporate income tax, excise tax, and personal income tax; additional revenues come from privatization, foreign trade, and sales of military equipment. Other taxes, e.g. transportation tax or land tax, were transferred to local budgets. Since revenues from these taxes did not allow for balancing local budgets, the local budgets received - on the basis of submitted projections of expenditures associated with assigned functions - a share in the total amount of collected central taxes, chiefly of corporate income tax and personal income tax. The volume of such shares was determined in the Budget Act and varied depending on a particular region.

The budget of Ukraine was characterized by a negative balance throughout the 1991-1995 period. Attempts at balancing the budget by increasing revenues proved unsuccessful. In spite of a dramatic drop in Gross Domestic Product, the contribution of State budget revenues in the GDP increased from 36.5% of the GDP in 1991 up to 42.37% of the GDP according to figures for the first 9 months of 1995. Growth of the underground economy and falling tax revenues place more pressures on the government to remove itself from financing and subsidizing activities better performed by the market alone.

Price Liberalization Policy

Three kinds of mechanisms of price control have been applied. One of them remained from the socialist economy and consists of fixing prices administratively at a nominal level - these are the so-called "administered prices." The second type of price control is regulated prices. This price control mechanism had an indirect character. The State influenced the level of regulated prices by establishing the maximum profit margin, setting the recommended maximum price growth, and fixing the official price of purchase for organizations participating in commercial turnovers. The last price control type is the market mechanism. The process of fixing prices on the basis of market mechanisms is often ambiguous. Although officially prices are not established on the basis of the two above mentioned mechanisms, the State influences price levels via the public procurement system and by "recommended" allocations of produced goods.

The first phase of price liberalization, or rather price adjustment, took place at the beginning of 1992. However, in view of protests in public opinion and the industrial lobby, the process slowed down. The next stage of price liberalization, combined with an increase in regulated prices, started at the end of 1992, when Leonid Kuchma's government came into power. After its fall, the next government led by Jevgenyi Zhavilsky reintroduced the administrative control of prices of most goods, which was a largely regressive action. Still another period of price liberalization commenced in 1994, when Kuchma won the presidential elections. Today, it is difficult to speak about an end of this process. The State continues to fix directly administered prices of such goods as bread and milk products, baby foodstuffs, gas, power supply, municipal services, city transport, and rents.

The State is able to influence prices indirectly, through the governmental procurement system, assigning specific customers to particular producers. Prices of goods incorporated into this administrative distribution system are fixed partially on the basis of market prices and partially on the basis of prices determined by respective governmental agencies or local authorities. The

governmental procurement system functions chiefly in the agricultural and metallurgical sectors, and applies to corn, vegetables, metallurgical products, and coal among others.

The local authorities can also influence the level of regulated prices. At the local level, prices of many goods may be fixed based on a dialogue between enterprises and local authorities, given a Decree from 13 February 1995. This chiefly refers to rent, prices of municipal services, and local transport. The range of responsibilities of local authorities includes determining the pace of adjusting these prices to a level which would cover costs in full and covering up the difference between the regulated price and the actual cost by means of subsidies. The attitude of authorities towards regulated prices is indirectly associated with the policy towards small and medium enterprises.

Trade Liberalization

The very complex system of foreign trade control, which functioned in Ukraine until the end of 1994, was characterized by a large degree of organizational disorder and by the fact that individual clerks were not held liable for decisions they made.

When one analyzes the implementation of liberalization measures taken by Ukraine with respect to foreign trade, one is faced with a very ambiguous picture. The currency exchange market has been liberalized but not all (unofficial) barriers to entering this market have been lifted. Governmental contracts and procurements in foreign trade have been abandoned but quantitative restrictions of exports of goods have been sustained. A continuing increase in the foreign debt of Ukrainian enterprises has not been prevented, and the State budget is responsible. This debt of Ukrainian enterprises resulted mainly from deliveries of fuel from Russia and Turkmenistan, which was associated with the slow liberalization of prices of energy carriers for both industrial and individual customers, and a lack of basic payment discipline. Moreover, Ukraine has not been able to service its foreign debt in full.

Attempts to balance the domestic market by administrative measures have resulted in the introduction of a complex system of trade barriers, in particular applicable to exports, in the form of export quotas and licenses, taxes, the obligatory re-sale of foreign currency on the basis of excessive exchange rates, customs duties, and other unofficial obstacles. This policy resulted in a dramatic deterioration of the balance of payments while the previous problems have remained and still need to be faced, although at higher economic and social costs.

In spite of implemented reforms, the system of controlling foreign trade in Ukraine continues to be unstable and obscure. Reforms which started at the end of 1994 and continued in 1995 introduced important changes but Ukrainian authorities lack the necessary determination to execute a full liberalization of foreign trade.

SECTORAL POLICIES

Industrial Policy

The Ukrainian Government has implemented an industrial policy based on supporting state-owned enterprises, mainly heavy, fuel, power and armaments industries. This policy has been limited to subsidizing such enterprises or sectors of economy which were capable of exerting sufficient pressure, and was performed at the cost of other enterprises. Such a policy has resulted in

supporting inefficient enterprises primarily characterized by high consumption of energy and obsolete technologies. This state aid has delayed structural changes in industry and has contributed to an increase in their costs.

In mid-1995, the Parliament adopted an Act on financial and industrial groups. Such groups are to be formed by state-owned enterprises and banks in order to improve capital flows and facilitate the acquisition of capital. The Act foresees many possible custom duty and tax reliefs. This is another attempt at controlling economic processes by administrative means. To date, no important financial and industrial groups have been established.

In March 1993, the Cabinet of Ministers adopted a Resolution on the industrial policy of the State. The Resolution stresses the necessity of the State supporting research and development in the fields of advanced technology: materials technology, biotechnology, low-temperature physics, space technology, ecology. The Resolution mentions the need to support environment-friendly industry. Although the Resolution correctly indicates the necessary directions of industrial development, it nevertheless does not provide any answers as to the funds which would allow the State to implement such a policy. Therefore, the document may only be assessed in terms of hypothetical concepts and does not seem to have any practical impact on the policy of the Government.

Energy Policy

Almost all branches of the fuel and energy complex are represented in the CR. The level of self-sufficiency of the region as a whole with respect to fuel and energy resources is rather poor - no more than 35%, in particular, by oblasts: Zacarpatskaya - about 4%, Ivano-Frankovsk - 35%, Lviv - 40% and Chernivtsy - 3%. The following branches of industry are functioning in CR: coal mining (Lviv oblast), oil and gas extraction (Lviv, Ivano-Frankovsk, Chernivtsy oblasts), peat (Lviv oblast), oil processing (Lviv, Ivano-Frankovsk oblasts). However, there are good prospects for future exploitation of fuel resources in the region.

The biggest coal reserves are concentrated in the Lviv-Volyn basin. However, absence of mine construction for many years and considerable withdrawal of coal mining capacities have greatly reduced coal extraction in the basin. It is also necessary to note that the main production facilities in the basin have deteriorated, the technical level is low and new technologies are practically absent.

More than 35% of oil balance reserves are located in CR. But the extent of oil extraction was no more 1.3 million tons per year in the most favorable period (1985) due to complicated geological conditions, low concentration of deposits, insufficient prospecting, poor technical provisions and other negative conditions, and since then oil extraction was decreased to 0.8 million tons. Balance reserves of gas, available for industrial development, are approximately 110 billion m3 (9.4% of national reserves). Recession of production is observed in gas extraction too.

The region has more than 50 million tons of peat reserves. Its extraction is matched to local demands and is maintained at a level of 1.5 million tons per year. Reserves of combustible shale are rather rich in Zacarpatskaya oblast, but are not mined at present. These reserves hold the potential to deal with demands of the regional economy in the future.

The petroleum refining industry of CR is represented by three old refineries, situated in Lviv and Ivano-Frankovsk oblasts. Due to shortages of supply of crude oil to these refineries, the output of

petroleum products has been decreasing every year. CR has at its disposal considerable resources of fuel, and oil and gas transport systems, but there has been insufficient utilization.

Analysis of the current state of electric power generation in CR indicates that the power industry of the region until 1991 provided for the region's internal demands completely and supplied more than 2.2 billion kWh to other regions of the country and for export annually. However, since then, CR has become an electricity-deficient region. Shortages of electric power in the region have reached more than 2.6 billion kWh in 1994. As a result, the utilities have introduced restrictions on electricity consumption and the system has decreased its reliability of electricity supply and the quality of delivered electric power.

Due to the general economic crisis in Ukraine, a decline in production and a decrease in transport has reduced the total volume of emissions from mobile and stationary sources, while emissions from the power industry, which constitute more than 50% of emissions from all stationary sources, continued to grow despite the decrease of overall generation of electric and thermal power. This growth is due to the wide use of bituminous coal, which increases emissions of solid particles and sulfur oxides; emissions of nitrogen oxides, caused mainly by the combustion of gas, has decreased.

In the future, Ukraine will experience strong deficiencies of gas and fuel oil and its thermal power industry will be forced to rely on coal. This will increase polluting emissions. Since emissions from large thermal power stations produce significant impact only within a radius of 30-50 km, the negative impact will be confined to certain areas of Lviv and Ivano-Frankovsk oblasts. For the remaining CR territories, the negative impact of the power industry is not likely to show itself noticeably.

Although the energy crisis is an unpleasant event, it has already produced a growing interest in energy efficiency and alternative sources of energy generation in the CR. Small power consumers have been forced to resolve the problem of local energy self-sufficiency utilizing renewable energy sources: small-scale hydro-power generation (micro- and mini-hydroelectric stations (MHES), wind-driven electric plants, solar water heaters, utilization of biomass, geothermal energy for heat supply, and thermal pumping plants for utilization of low-potential warmth. There is a large potential for these forms of energy generation in the CR.

Regional Policies

In 1995, the Ukrainian Government prepared several documents concerning regional economic policies. These projects envisage a possibility of implementing economic policies at the local level. However, although the documents present the assumptions of regional development, they do not provide definite answers to two basic questions: (1) how to create efficient mechanisms for their implementation? and (2) how to obtain sufficient financial funds? Any documents on regional policies will remain incomplete unless they attempt to solve national problems, such as: (1) creating an efficient and rational system of financing local budgets; (2) creating and improving a legal basis which would allow for more freedom in the operation of local governments; and (3) unifying issues of ownership rights and creating a legal framework for the land turnover system and ownership registration.

INSTITUTIONAL CAPACITIES

A survey was conducted in early 1996 of 30 government officials, leaders from environmental nongovernmental organizations, industry managers, and academicians at the national, regional and local levels in the Carpathians concerning the institutional capacity of government and industry to sustain economic growth. The results focus on capacities to monitor and regulate the environmental impacts of business development in the Carpathians, and on capacities to promote business development.

Throughout Ukraine and in the Carpathian Region, government institutions do not have the modern equipment needed to conduct environmental monitoring and information. Those surveyed are unanimous that governmental institutions are not able to provide sufficient financing for technical support of environmental monitoring in the Carpathian Region. Similar findings pertain to the lack of modern equipment for water treatment, as well as a lack of specialists able to operate and maintain such equipment. Inter-institutional coordination for environmental protection activities also is poorly developed.

Most respondents estimate only a moderate capacity for government institutions in financial management for environmental protection purposes. Respondents were unanimous regarding the lack of funds for paying and retaining of qualified economists or financial managers on staff. During the present transition, governments are unable to compete with salaries offered by business. Rapid inflation and the high cost of living forces qualified financial managers to move to the private sector.

The majority of respondents feel that, during the last three to four years, government institutions have become open for collaboration with NGOs. Respondents generally noted the importance of training government officials for work with the public. However, one third of respondents regard with skepticism the practicality of such training where the lack of funds make such relationships difficult.

Three basic needs were seen by respondents to stimulate environmentally sound business development in the Carpathian Region: (1) investment policies and financial support; (2) improvement of legislation; and (3) development of a modern tourist infrastructure. Respondents at the oblast level view development of an adequate infrastructure for tourism as especially important. Some respondents saw local governments as being key participants in the development of comprehensive programs of tourism development. Others, in contrast, would limit them to enforce local environmental regulations and to assure the implementation of legislation regarding environmental protection.

3. ECOLOGICAL AND ENVIRONMENTAL CONDITIONS

This chapter assesses the current state of the environment in the Carpathians by examining each of the major ecosystems and environmental sectors -- forests, biodiversity, the atmosphere, water, waste management, and land use and agriculture.

Forest Ecosystems

Much of Ukraine's forests has disappeared over the last few centuries, largely because of agricultural conversion. The country currently has about 0.2 ha of forest land per capita in comparison to a world average of 1.4 ha (3.2 ha in the former USSR; UNCED, 1991). Some of the remaining forest area has been further devalued through inefficient and short-sighted timber harvesting practices. Faced with a limited forest supply, Ukraine is now forced to import nearly 70% of is wood products, most of which comes from Russia and Belarus.

Of the remaining forests in Ukraine, 16% of the area and 33% of the wood resources are found in the Carpathian mountain region. The Carpathian forests are considered to be more productive (up to twice as productive) and to have more valuable and diverse compositions of species than the rest of Ukrainian forests. The region also is said to have the most productive beech forests in Europe. Given the limited supply of Ukrainian timber, the rising prices of imported timber, and the high national and international demand for timber, these forests represent an important economic resource, both nationally and locally. In 1993, almost 70,000 people were employed in the Ukrainian forestry and wood processing industry. Data on employment in the Carpathian region are not available, but the numbers are likely to be significant given that almost 34% of all wood products in Ukraine are harvested and processed in the Carpathians (Zastavniy, 1994). There are furniture producers, lumber-chemical plants, and paper manufacturers in the region, and there are sawmills in at least 12 regional cities.

Carpathian forests also produce a number of valuable nontimber goods and services. Rivers in the Carpathians are stocked with fish, and the forests contain large mammal populations, including deer, boar, bison, and bear. Local enterprises and the general public harvest, prepare, and market nationally wild berries, mushrooms (also exported), honey, medicinal plants and other nonwood forest products. Firewood is an important source of energy for rural Carpathian households. The forests also form the watersheds for many rivers that provide hydroelectric power, industrial fishing grounds, and municipal water supplies. With an average annual rainfall of 1800 mm, the Carpathian region depends on forests to protect the soil and to buffer the intensity of annual floods. A number of sources have attributed increases in flood and landslide intensity to deforestation in the area (Roman Shpek, Minister of Economy, 1994; United Nations, 1994). A December 1993 flood affected 130,000 people and 17,000 homes (United Nations, 1994).

Although the Carpathian region is still well forested compared to the rest of Ukraine, there are strong human pressures upon it. The region has been heavily logged since at least the late 19th century. Ukraine's forests, including parts of the Carpathian forests, were extensively damaged during World War II (going from 40% of land area before the war to 12% after the war; World Bank, 1994b). Wood was an important historical input in Ukraine's postwar reconstruction and economic development, and the Carpathians were a relatively accessible source. In addition to

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political factors, government subsidies, poor harvest techniques and management plans, and inefficient processing technologies have also contributed to what some observers consider an excessive historical rate of harvesting. In recent years, rates of harvest have decreased because of difficult economic conditions and an increased concern for more sustainable forest management; about 6400 ha of forest are cut annually (about 1.7 million cubic meters).

Timber cutting is currently the primary agent of deforestation in the Carpathian region. There are, however, many opportunities for improving current forestry operations. The technologies and techniques currently used are quite old and not always appropriate for mountainous conditions (e.g., tractors and roads with fall-line skidding rather than cable logging). New techniques and technology could greatly reduce the large negative impacts that current harvesting operations have on soil cover and plant regeneration. New technology and techniques could also greatly increase the amount of marketable wood derived from harvested trees. Research has shown that new technologies in Ukraine's woodworking enterprises could save 10-12 million cubic meters of timber annually (Koval, 1993).

Better planning and siting of harvest operations could also help conserve Ukraine's forests and make current and future forestry operations more efficient. The EPAT Ukrainian forestry expert has noted that the forests are being cut faster than they are being regenerated (either naturally or anthropogenically). These cutting rates and patterns have transformed many forest areas from diverse, stable communities to unstable monocultures (often spruce). These simplified ecosystems are less able to maintain the watershed protection services of the forest and are more prone to damage from winds. Wind damage is often followed by pest infestation which can in turn spread to surrounding healthy forest.

It is unclear if technical and financial constraints are the only impediments to the adoption of more efficient forestry technology and management plans. Although forest users are charged for the products they harvest (20% of which goes to regional governments), we have no data indicating if the fees reflect the full rent value of the trees, thereby discouraging overharvesting. Neither do we have any information on any current subsidies to the forestry industries. Legislative and institutional regulations relevant to these questions are provided by the Ukrainian Forest Code. There are efforts underway to consolidate forest management under one ministry and solve the management problems currently plaguing the forestry industry (e.g., overlapping jurisdictions), but the impact of these efforts is unknown.

With regard to other impacts on the forest, we have no data that either acid rain or radioactive contamination are problems, although the head of the State Environmental Safety Administration in L'viv believes that acid rain is a real, albeit undocumented, problem in the Carpathians (Dr. Victor Ogonochenko, per. comm., 1996). In general, biological controls are used to control forest pests, rather than the application of chemical pesticides. Other chemical pollution presents localized problems near some industrial plants. There are, however, 1300 km of pipelines for gas, oil, and petroleum products in the Carpathian region. If these pipelines are anything like their counterparts in Russia, they could be leaking a significant quantity of fuel into the surrounding ecosystems. Deforestation for agriculture is a problem in some areas, but we have no data on this phenomenon. Finally, there is also substantial peat mining in the region (1.5 million tons/yr.). The environmental effects of this activity are unclear, but in some areas of the world peat lands are important wetlands that play a significant role in maintaining water quality and controlling floods.

Biodiversity

The pressures on the Carpathian forests also have a significant impact on Ukrainian biodiversity. The Carpathian region is home to one third of Europe's plants and animals. Half of Ukraine's plant species and more than the half of its animal species are found in the Carpathians. Life for these species, however, is becoming increasingly difficult because of the conversion of habitat in the region, particularly old growth forests and, to a lesser extent, damage from timber operations. Nearly 10% of Carpathian animal and plant species are endangered and dozens have already gone extinct. Biodiversity loss has been most severe in the Precarpathian region of the L'vivska and Ivano-Frankivska oblasts.

The principal mechanism for biodiversity protection is the protected area system. There are nine types of protected areas in Ukraine: national parks, reserves, biosphere reserves, preserves, reserved territories, natural monuments, parks, arboretums, and botanical gardens. The first three are most important for *in-situ* biodiversity conservation.

Protected areas currently make up only 2.34% of Ukraine's total area (in comparison with a European average of 5-7%). In 1994, the Ukrainian Supreme Rada approved a program for development of natural reserves which will increase this area up to 3 to 4% by the year 2000. In the Carpathians, there were 196,700 hectares of protected areas in 1989 (Stoyko et al., 1991). The Ukrainian government also participates in transnational biodiversity conservation efforts in the Carpathians (e.g., the "Skhidni Karpaty" International Biosphere Reserve with Poland and Slovakia).

Air Pollution

Although the air in the Carpathian region is not as polluted as some of the major industrial areas of eastern Ukraine, oil-processing, chemical manufacturing, construction, and power plants, as well as automobiles, have contributed to a considerable degradation of air quality in the region. About 60 specific pollutants are emitted into the air of the Carpathian region annually. Based on the national ranking system of the Kiev-based Agency for Rational Energy and Ecology (ARENA-ECO), two of the four Carpathian oblasts had "average" air emissions and one had "considerable" emissions in 1992. Roman Shpek (1994), the former Minister of Economy, said the Carpathian region ranked fourth in air pollution.

The major sources of air pollution in the Carpathian region are large industrial centers (L'viv, Ivano-Frankivsk, Kalush, Kolomiya, Chernivtsy, Uzhgorod), large individual industrial plants, and motor transport (primarily in urban areas on the Precarpathian plain).[1] According to government calculations, two-thirds of air pollution comes from point sources. The biggest air polluters in 1994 were power plants, which contributed 68% of the total pollution volume from fixed sources.[2] The single greatest polluter in the region is the Burshtin power plant located in the Ivano-Frankivska oblast. While metallurgy plants are big polluters in other areas of Ukraine, there are few metallurgy plants in the region. Geographically, air pollution is most acute on the eastern

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[1] Fifty-six percent of automotive air pollution in the region is in L'viv.

[2] L'vivska and Ivano-Frankivska oblasts consume 43% and 31% respectively of the total regional electricity. For the region as a whole, industry and municipal/household sectors each consume about one third of the total electric supply. One quarter is used by the electric power industry to produce the electricity.

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plains of the Carpathians and in large cities, and least troublesome in the mountain areas of the Zarkapatska oblast. The majority of the pollution centers are concentrated in a dozen towns.

There is a regulatory framework to control pollution (see Chapter 4), but there is less than perfect compliance with the law. According to information from government sources, more than 45% of the examined regional enterprises did not meet the standards of air pollution in 1992. This figure is twice as large as that for Ukraine in total. This statistic is even more telling given the ineffective system of air pollution monitoring in Ukraine and the dependence on industry self-reporting.

Air pollution might be even worse if it were not for the western winds in the Carpathian region that sweep away part of the pollutants from the Burshtin power plant, as well as from enterprises of Chervonograd industrial center and Ivano-Frankivsk cement and slate works, to areas outside the boundaries of region. On the other hand, these same winds may bring pollutants from Central European countries (registered by stations in the L'vivska oblast and the Zakarpatska oblast), but we have no quantitative data. According to some estimates, about one-third of existing air pollution results from the transport of pollutants from neighboring countries.

Recently, Carpathian air quality has improved because of the decline in regional economic activity resulting from the national economic crisis. Declining industrial production and limited fuel supplies caused power stations to reduce their activity in the early 1990s (a decline of 46% between 1990 and 1994). Moreover, oil refineries in L'vivska and Ivano-Frankivska oblasts have reduced production because of high prices and limited supplies of crude oil, and people and businesses are driving less because of high gas prices. This trend is likely to continue in the short-term given the emphasis in structural adjustment efforts on adjusting energy prices to full cost recovery levels and removing subsidies for public utilities (although political pressures may postpone such changes).

Even with the decrease in economic activity, however, the Ukrainian maximum allowable concentrations (MACs) for several pollutants were exceeded in 1994. For example, despite decreases in electric power generation, the power industry increased its emissions of many pollutants. High prices and shortages of natural gas and oil led the power industry to increase its use of bituminous coal which is more polluting.

Due to its limited resources, the health and epidemiological agency has not performed a detailed analysis of health consequences of separate air pollutants. General analyses of air pollution and disease rates in the most polluted regions, however, have revealed a close relationship between these two parameters. According to data from the Ivano-Frankivska oblast, during 1991-1994 there was a direct relationship observed between the variations in respiratory disease rates and air pollution levels in Kalush and Kolomiya districts. The MEPNS estimated the annual costs of air and water pollution across the nation in 1995 as 2.5% of GDP.[3]

Water Pollution

The Carpathian region has an abundant supply of surface and underground freshwater, although several cities (e.g., L'viv) do experience water rationing. The main consumers of water in the region are, in order, municipal services, industry, and agriculture. Half of the consumed water is

[3] The total amount of environmental damage, excluding the costs of Chernobyl remediation actions, is estimated at about 10% of GDP (Gaponenko, 1996).

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obtained from surface waters. Surface waters supply 47% of the water for household drinking and 55% of the water used by industry.

As with air pollution, water pollution in the Carpathians is not as severe as in some other areas of Ukraine, but it is present. The main point sources of water pollution are industry (particularly chemical plants and wood processors) and the municipalities. In 1995, municipalities contributed 73% of the total volume of pollutants from point sources, while industry contributed 26%. The biggest sources are located in the L'vivska oblast and in some parts of the Ivano-Frankivska oblast. The town of L'viv is the biggest water polluter. The main centers of water pollution are located along the Dnister river and its tributaries and along the Zahidny Bug river. Other affected rivers are the Tisa, the Prut, the Vishnia, the Latoritsa, and the Uzh. There are some reports that the aquatic animal and plant life have been severely impacted in areas downstream of industrial and municipal discharges (Hamor, n.d.). The Tisa, Dnister, and Prut run into neighboring countries and thus are a potential source of transboundary pollution.

We have no data about nonpoint sources of water pollution, such as agriculture and urban runoff. Based on the nature of the local economies and the settlement patterns of the oblasts, we estimate that most nonpoint pollution occurs in the Near-Carpathian Heights and the Carpathian lowlands. We have no data on pollution of the region's mineral water resources. There are anecdotal reports of groundwater contamination by human wastes during periods of flooding, but we have no quantitative data. A national study found 25% of Ukraine's underground waters to be polluted (cited in Scherbak, 1992).

Waste Management

In the vicinity of every city or town, there is a publicly managed system of solid waste collection and landfilling. Groundwater pollution under landfills, which is monitored by health-epidemiological services, was not detected in the region. There is no recycling of solid waste by government waste collectors or landfill managers. In rural areas, landfills are generally absent. Garbage tends to accumulate along rivers and roads, and in forests. Geographically, the majority of solid waste producers is located in the Carpathian lowlands, although some mountain towns, such as Chervonograd and Uzhgorod, also produce significant volumes of solid waste.

Toxic industrial wastes are typically stored on-site. On-site storage is, in principle, for temporary storage only. However, there are no sites for toxic waste disposal in any administrative district of the region, and thus on-site storage has become semi-permanent (radioactive waste, however, is stored at a government facility in the L'vivska oblast). Prior to independence, toxic wastes were transported to processing plants and burial sites in Russia. Now, local council block efforts to build new sites for toxic waste disposal facilities in the region.

Almost 100% of toxic wastes are generated by public enterprises, although that figure could change as enterprises are privatized in the near future. The leading toxic waste generators are the enterprises of the Ministry of Coal Production, the Ministry of Industry, the Ministry of Transportation, and State Committee of Oil and Gas.

There are some efforts to neutralize toxic wastes and reuse them in some capacity, but this is typically done on a very small scale. Financial constraints, an inadequate legal framework, and lack of technology are the principal constraints to toxic waste recycling.

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Agriculture and Land Use

Although agriculture in the Carpathians is not as extensive or productive as in other areas of Ukraine, almost 50% of the total territory of the region is in agriculture, particularly in the Precarpathian lowlands. The more mountainous areas are still well forested largely because they are not well suited for agriculture (e.g., 0.57 ha of arable land available per capita in the Zakarpatska oblast as opposed to 2.45 ha per capita for Ukraine as a whole). We have few data on the environmental impacts of agriculture in the Carpathians. Crop and livestock production can have negative impacts on the environment through deforestation and its associated impacts, overgrazing, siltation from soil erosion, pesticide pollution, and nutrient pollution from fertilizer, soil, and animal waste runoff (animal wastes also contaminate surface and ground waters with bacteria).

Roman Shpek, former Minister of the Economy (1994), said that the Carpathian region was highly contaminated with pesticides and fertilizers. The World Bank (1994a; 1994b), however, stated that pollution from fertilizer and pesticide use in Ukraine was not a widespread problem because unit use of these chemicals is not high in Ukraine relative to many European countries and has been falling recently because of difficult economic conditions. EPAT consultants found that the use of chemical fertilizers and pesticides in Ukraine in 1995 was 25-30% of 1990 levels. Moreover, the majority of the Carpathian agricultural land is dedicated to grain and forage crops which use less fertilizer and pesticide than industrial and vegetable crops. The State Commission for Chemical Utilization approves a list of pesticides that may be used legally in Ukraine. The World Bank (1994a: VIII-4) believes that pesticide leaks in storage or transport in Ukraine "may well be the greatest environmental hazard because pesticide spills have the potential of reaching segments of streams in much higher concentrations during water runoff events than would likely come from fields." Pollution from livestock wastes is also likely to have decreased in recent years because of 1) a decrease in livestock numbers and 2) a decrease in the concentration of livestock that followed the breakup of collective and state farms. The amount of nutrient and pesticide pollution generated by farms could be further reduced through better farm and conservation practices (e.g., reduce runoff and erosion).

4. LEGAL ISSUES

This chapter examines the large and growing base of national-level Ukrainian laws, directives and regulations that govern environmental issues (forestry, biodiversity, water, air, waste management, environmental impact assessment, economic instruments and incentives, and public participation) and commercial issues (tourism, taxation, investment, privatization and stocks and securities). The current legal frameworks that regulate each of these areas are described briefly.

Introduction[4]

The "Law on Protection of the Environment," 25.06.91, no. 1264-XII, 1991,41, p.46, is the "Basic Law" and enunciates principles of modern environmental law, but does so in a broad, declarative manner. Such goal oriented, framework laws are often found in the Commonwealth of Independent States (CIS) and represent an important step in developing an environmental legal regime. These laws, however, lack specific guidelines and remedies, recognizable authority for promulgating subordinate regulations and enforcement, and provisions for implementation and administration by failing to set priorities and deadlines. The Basic Law's provision for waste management, discussed below, provides an example of the law's vagueness.

Recognizing the legal gaps in the environmental regulatory regime, the then Ministry of the Environment issued a "conceptual framework" in 1993 for environmental legislation in the Ukraine. The framework called for a total of 17 pieces of legislation and over 30 standards and regulations. Subsequently, a substantial amount of legislative activity has occurred and many of the old Soviet era environmental laws have been replaced. This represents a positive trend since more specific, implementation oriented sectoral legislation and subordinate regulations are necessary to give content to the environmental goals enunciated in the Basic Law.

The Ministry of Environmental Protection and Nuclear Safety (MEPNS) has the broad mandate to serve as the lead agency for environmental management. MEPNS works closely with several research institutes, which provide technical expertise. Additional national government entities that play a role in environmental activities are the Verkhovna Rada, Cabinet of Ministers (CM), local state authorities and specially authorized bodies such as the Ministry of Health Protection, the Ministry of Agriculture, the Ministry of Forestry, the State Committee on Hydrometeorolgy (Hydromet), the State Committee on Water Resources and the State Committee on Geology. There are authorized affiliates of these bodies at the city level. While MEPNS is the lead agency, the CM provides general control in the spheres of environmental protection and utilization of natural resources. The Verkhovna Rada and Commission for Ecological Policy are involved in the elaboration and approval of legislative acts regarding ecology. Oblast and local government authorities have the authority to implement and enforce the laws.

A plethora of commercial laws have been passed to lay the foundation for a transition to a free market economy. These laws cover such matters as: taxation, investment, privatization, banks and banking activity, securities and stock exchanges, and many other subjects. These ambitious laws

[4] The comments on Ukrainian law herein should not be considered comprehensive or authoritative. Competent Ukrainian counsel will need to review this chapter to ensure consistency with Ukrainian law. Issues relating to nuclear energy, while of critical importance to Ukraine, are not discussed in this chapter.

have been marked by frequent revisions and overly bureaucratic confusion as to their interpretation and enforcement. Further complicating the situation has been the conflicting laws and subsidiary regulations issued by the Parliament, Cabinet of Ministers and the President. In spite of numerous delays, legislative reform regarding business activities is moving in a positive direction, though taking into account the requirements of environmental protection still remains highly conjectural.

Biodiversity

In addition to the Basic Law, the following laws impact on biodiversity: "Forest Code of Ukraine," 21.01.94, 3852-XII, 1994, no.17, p.99; "Land Code of Ukraine," 13.03.92, 2196-XII, 1992, no.25, p.354; "Law on Natural Territories and Protected Areas of Ukraine," 16.06.92, 2456-XII, 1992, no.34, p.502; and "On the Fauna in Ukraine," 03.03.93, 3041-XII, 1993, no.18, p.191; Statute of Red Book 29.10.92, 2750-O11, 1992, 52, p. 686. Potential jurisdictional conflict have been resolved by assigning jurisdictional responsibility to the MEPNS.

The Law on Natural Territories and Protected Areas provides a broad of array of legal and managerial options for natural resource management by prescribing different types of protected areas. The types of protected areas include: strictly protected state nature reserves, national parks, biosphere reserves, partial nature reserves, national monuments of nature, zoological and botanical gardens, and other types of protected landscapes. This law appears to incorporate many of the provisions of the Convention on Biological Diversity and the Bern Convention on Flora and Fauna Protection in Europe.

Strict nature reserves or "zapovedniki", traditionally, are strictly protected for scientific and educational purposes with recreation prohibited. This type of protected area does not have a ready counterpart in western countries. National parks or "zapovedni parki", while similar, entail a lessor degree of protection. They preserve natural, historic, and cultural sites; provide tourism and recreation opportunities; and support research and ecological education. Biosphere reserves were developed as part of the UNESCO's Man and Biosphere program. Such reserves have three zones of use, which strive to integrate the surrounding community with the sustainable use of natural resources. All three types of protected areas belong to the state.

Partial nature reserves attempt to preserve typical or unique sites. In many cases the land users remain on the land, but the land may be zoned for limited activities. Monuments of nature are separate natural items and can include unique trees or rock formations, caverns, waterfalls or rivers. Natural reserves as well as historical monuments stay in the ownership or tenancy of organizations. While different ministries may have an interest in the various protected areas, the Central Board for National Parks and Nature Reserve Management housed within the MEPNS is the key player.

The fauna law introduced important, new concepts dealing with the ownership of wildlife, administration of hunting, and changes in limits and licenses. This law enunciates the principle that the primary objective of the reserve system should be the protection of habitat rather than wildlife per se. One feature of the law, particularly noteworthy in a CIS country, is the possibility of providing an incentive to individual landholders via tax relief for setting aside small areas of their land for conservation purposes. Fulfillment of these provisions is not fully provided, because many of them are not realized in tax and other specific economic legislative acts. This law, together with the Law of the Ukrainian Natural Reserve Fund, is aimed at building a proper legislative basis for biodiversity protection. The Statute of Red Book fully complies with the

requirements for the International Red Book of the International Union of Environmental Protection and with acts that regulate European lists to protect rare plants and animals.

Forestry

The 1994 Forestry Code (FC), 21.01.94, 3852-XII, 1994, no.17, p.99, bears a great deal of similarity to the previous forest legislation. The new legislation was translated from Russian into Ukrainian and minor revisions were made to the law -- such as removing references to tundra since Ukraine does not have tundra. The current law will likely be revised.

Forests in Ukraine belong to the State, and the Ministry of Forestry (MOF) has jurisdictional authority over the vast majority of these forests -- approximately 72 percent of Ukraine's total forest fund. State and collective farms manage 24 percent of the forests, and teaching and research institutes and the military manage the remaining forests. Questions arise as to what will happen to the forests on the collective farms after privatization. Most likely, these forests will come under the authority of the MOF. The MEPNS has concurrent responsibility for environmental issues that affect forests.

The MOF acts through state forestry departments at the oblast level. While oblast level forestry departments are under the MOF's authority, oblast administrations have significant influence. For instance, an oblast administration can recommend the chief forester for an oblast. Specialized forestry enterprises (SFE) represent the next level of government authority and they conduct the actual operations. A SFE's authority follows the geographic boundary of a forest and may include sections of one or more rayons. As a practical matter, this gives a SFE some autonomy from a rayon administration. Historically, a SFE engaged in harvesting, transportation and processing. A SFE's responsibilities now include sanitation cutting, negotiating leases, reforestation and managing other forest uses -- such as recreation.

During the Soviet period, the Ministry of Forest Industry (MOFI) managed the Carpathian forests. This ministry engaged not only in forest management, but in harvesting and wood processing. When the transition to a market economy began, the MOFI merged with the Ministry of Industry and the MOF assumed the MOFI's forestry responsibilities. Privatization of the wood processing enterprises is well underway, but the State still owns minority interests in many of these enterprises. Some managers report that the State plans to divest its interests in the near future.

The MOF administers forests of national importance. These are the most productive forests and are also the forests that are the most important for protecting the environment. Collective farms manage forests of local importance. Article 36 of the FC further divides forests of national importance into two types. In Type I forests, economic activities are restricted to sanitation cuts. Some sanitation cutting occurs in protected areas and represents a source of revenue for those areas. Type I forests form green belts around cities and other developed areas, protection zones along rivers and other bodies of water and along roads and railroads. Harvesting within 500 meters of a river is prohibited. Type I forests also protect against soil erosion in mountainous areas and watersheds. Type II forests are commercial forests.

Article 9 of the FC provides that SFEs and other enterprises and institutions with specialized divisions can receive permanent use of forest fund plots. Questions arise as what constitutes "other enterprises and institutions with specialized divisions." For instance, one manager of a wood processing enterprise said he wants to obtain such status so his enterprise could have permanent

use of a forest fund plot. He did not interpret permanent as meaning forever, but did want a fifty year concession contract. A permanent user may lease a forest fund plot to enterprises, local communities, religious organizations, and Ukrainian and foreign organizations and individuals for temporary use.

Article 51 of the FC specifies that a "special permit, effective cutting warrant or forest card" is necessary to engage in "special uses" of forest resources. "Special uses" apparently refers to commercial harvesting. In this regard, some wood processors report that they can only obtain a forest card that permits them to cut for one year. A forest card specifies seasonal cutting and other harvesting requirements. For instance, beech must be harvested during the winter, but fir can be harvested up till summer. While obtaining a forest card has not proved difficult to date, wood processors express a great deal of concern about this tenuous situation. They would like long-term timber concession contracts. Incidentally, some SFEs continue to engage in timber harvesting. The prices they charge are competitive with what the private sector charges.

Article 89 of the FC specifies the mechanisms for awarding special use of forest resources. Pursuant to Article 89, "payment is effected either in accordance with the established taxes, or as a leasing fee or earnings from the sale, on a competitive basis." A question arises as to how the mechanisms prescribed in Article 89 relate to the provisions in Article 51. For instance: how much are forest taxes, how can payment be made (in money or in-kind), and how are the taxes administered (in theory and in practice)?

The reference to a leasing fee may refer to direct negotiations between a wood processor and the MOF or its representatives. A government attorney stated that there can be short and long-term leases. Short-term leases can run for up to three years and are for enterprises that have a one time, unique need for timber. Long-term leases are for enterprises that demonstrate long-term needs and engage in wood processing activities. This statement, however, contradicts statements by the wood processors who say they can only obtain a one year forest card. The final mechanism apparently refers to auctions. The extent to which the MOF uses auctions remains unclear. Some wood processors were not aware of auctions; whereas, others report that some auctions do occur.

Article 91 of the FC provides that eighty percent of the forest use fees go to the State and the remainder to the regions. The fees are suppose to fund reforestation and other initiatives to manage the forests in a sustainable fashion. The people who harvest the timber are not required to undertake reforestation; the MOF undertakes this responsibility. Actually, the MOF transfers money to the SFEs and other permanent users to conduct reforestation. The extent to which the SFEs receive these funds and undertake adequate reforestation proves problematic.

Wood processors relate that they receive a timber harvest allocation based on what they harvested the previous year. They negotiate the fee for the timber with the MOF. If an enterprise wants to increase the amount it harvests, it then obtains additional harvesting rights at auction. The next year the enterprise can negotiate harvesting rights based on what it harvested the previous year, which now includes the amount negotiated and the amount obtained at auction.

Many private wood processing enterprises maintain close relationships with the state forest agencies from which they were privatized. For instance, the manager of one wood processing enterprise reports that his enterprise pays 300,000 kupons per cubic meter of wood; whereas, most people pay 2,700,000 kupons per cubic meter. The latter figure may represent an auction price. This manager and other managers report that they negotiate their contracts directly with the state.

They give two reasons for their low price contracts: (1) their enterprises are major employers and (2) they engage in significant value added processing.

Articles 95 and 96 provide that the MOF will prepare a forest inventory and cadastre. The references to the inventory sound like more than just an inventory and may encompass the elements of a forest management plan. For instance, the inventory may specify how many trees can be cut, and when and where the cutting will be done. The MEPNS must approve the inventory. After the MEPNS signs off, it goes to the Cabinet of Ministers for approval. The FC does not specify how often the MOF will conduct an inventory. One respondent said every ten years and another said every twenty years.

Water

The Basic Law does not have sections that specifically address water use and regulation. Instead, the Basic Law provides for the use and regulation of natural resources. Surface, ground and marine waters are listed as natural resources. More specific sectoral legislation can be found in the "Water Code of the Ukraine," 06.06.95, 214/95-BP, 1995, no.24, p.189.[5]

Pursuant to Article 6 of the Water Code, all water bodies are publicly owned and managed through the Supreme Council (Rada) of Ukraine, Supreme Council of Autonomous Republic Crimea, and local Councils of peoples deputies. The Code specifies the jurisdictional responsibilities of various government entities for the use and protection of water resources. The primary actors are MEPNS, the State Committee on Water Resources, and the State Committee on Geology and Utilization of Mineral Resources. Local authorities are responsible for the supply of drinkable water and purification of public water waste. The State Municipal Water Service, which acts through local departments, administers water use in the north-east part of the country, including Lviv, Ivano-Frankivsk and Chernivtsi oblasts.

The water quality regime adopts the system commonly found in many CIS countries. A few thousand chemical, physical and biological indicators defining acceptable water quality are represented by a standard for maximum allowable concentrations (MAC). These standards can vary according to the type of water body. Four sub-classes of water exist, each of which is subject to different standards. The sub-classes include drinking, fish propagation, human use other than drinking, and industrial uses; the latter sub-class has the lowest standard. Some MAC standards are stricter than those found in many western countries.

The regulatory system is based on the control of point source discharges. The MEPNS issues permits to each municipal or industrial facility to discharge directly into surface waters. Complex

[5] In addition to the Water Code, the following laws and subordinate regulations govern water: "Measures for Sanitary-Epidemiological Welfare of the Population," 24.02.94, 4004-XII, 1994, no.27, p.218; Decision of the Cabinet of Ministers: "On Approval of Order for Determination of Payments and on Collection of Payments for Pollution of the Natural Environment," 1992; "Sanitary Rules and Standards, Conservation of Surface Waters from Pollution," San R&S no.4630-88, 1988; "Nature Conservation, Hydrosphere, Utilization and Conservation of Water, Main Terms and Definitions," GOST 17.11.77; and "Instruction on the State Monitoring of the Environment, Collection of the Decisions of Government of Ukraine," no.201, 1993.

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mixing zone models are used to calculate a facility's maximum allowable discharge (MAD) limit so as to ensure a violation does not occur for the MAC values for that stream.[6]

Air

Like water, the Basic Law makes only general reference to air. The primary laws establishing an atmospheric air regulatory regime are: "Protection of Atmospheric Air," 16.10.92, 2707-XII, 1992, no.50, p.678; Measures for Sanitary-Epidemiological Welfare of the Population;" "Ecological Expertise," 09.02.95, 45/95-BP, 1995, no.8, p.54; and "Nuclear Energy Applications and Radiation Protection," 08.02.95, 39/95, 1995, no.12, p.81. The Law on Protection of Atmospheric Air describes mechanisms for complying with the requirements of relevant international treaties signed by Ukraine, including the UN Convention on Climate Change, the Convention on Ozone Layer Protection, the Convention on Long-Range Transboundary Air Pollution in Europe and corresponding protocols. The MEPNS is responsible for control and regulation of these mechanisms.

Ukrainian air law adopts a MAC system, wherein a MAC pollutant is a concentration of chemical agent in the air, which does not result in any pathologic changes or diseases and does not adversely affect human health over long-term daily exposures. Pollutants are classified into four classes: class I-- extremely dangerous, class II -- highly dangerous, class III -- dangerous, and class IV -- medium danger. MACs are specified for over 400 air pollutants, usually for 20-30 minute exposures, but in some cases for 24 hour exposures.[7] The standards serve as the basis for setting emission limits, which then serve as the basis for the pollution fee system. In addition, the emission limits system assumes the existence of "sanitary zones" which provide a dispersion zone near a polluting enterprise.

Waste Management

The formation of a legal basis for waste control in Ukraine is still at an early stage. The primary laws of Ukraine regulating waste management are: the Basic Law, article 55; "Measures for Sanitary-Epidemiological Welfare of the Population," (MSEWP) "Handling of Radioactive Wastes" (1994) (HRW); and the "Codex of the Ukraine for Mineral Resources," (CUMR) 27.07.94, 132/94-BP, 1994, no.36, p.340. The Basic Law provides that:

> Enterprises, institutions, organizations, and citizens should (*author's underlining*) take effective steps to reduce the volumes of formation of production, household, and other waste and to decontaminate, process, and safely warehouse or bury it.

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[6] The formula for calculating MADs is based on the "Methods for Calculations of MAD of Substances In Water Objects with Sewage Waters," 1980; and "Methodical Instructions on Application of Rules of Conservation of Surface Waters from Contamination by Sewages," no. 2163-60, 1992. In addition, the following new regulations have been adopted: "Attestation of Laboratories of Control for Environmental Pollution, General Statement," KND 211.0.0.007-94, Kyiv, 1994; "Hydrosphere, Selection of Tests for Determination of the Content and Properties of Sewage and Technological Waters," KND 211.1.0.009-94, Kyiv, 1994; and "Methods of Determination of Vanadium, Lead and Other Metals, Nitrations, Minerals, Phosphates and Other Substances in Surface and Sewage Waters," KND 211.1.4.(017-043)-95, Kyiv, 1995.

[7] "Directions for Atmospheric Pollution Control," RD 52.04. 186-9, Moscow 1991.

> The warehousing, storage, or disposal of waste are allowed only with a special permit on territories determined by local soviets of people's deputies within the limits established by them with the observance of sanitary and ecological norms by a method ensuring the possibility of its further economic utilization and safety for the natural environment and people's health.

The MSEWP seeks to regulate the production, storage, transportation, exploitation, disposal, and utilization of wastes so as to guarantee the health and safety of the population. The HRW provides for central government control over radioactive wastes by recording where they are stored and monitoring of disposal sites. The CUMR addresses commercial mining operations by specifying the disposal, storage and reprocessing of wastes from the production and cleaning of mineral substances.[8]

The law classifies waste into the following categories: liquid, solid and toxic industrial. Toxic industrial wastes are the most harmful and additional regulations apply. The USSR Ministry of Health and the USSR State Committee of Science and Technique issued the "Temporal Classification of Toxic Industrial Wastes and Methodical Recommendations for Determination of Toxicity Class for Industrial Wastes," 05.87, no.4286-87, which separates toxic wastes into four classes: class I -- extremely dangerous, class II -- highly dangerous, class III -- moderately dangerous, and class IV -- slow dangerous. The different types of toxic wastes have different storage requirements. The Law of Waste Control is being elaborated by state ministries. The government has recently confirmed an order that for the first time in national legislation has presented a list of waste products that is banned for import.

Ecological Expertise

The provisions in Section VI of the Basic Law dealing with ecological assessments have been further delineated in the "Law on Ecological Expertise" 09.02.95, 45/95-BP, 1995, no.8, p54. The legal tool of ecological expertise, common in many CIS countries, bears similarity to environmental impact assessment used in many western countries -- but has some notable differences. Pursuant to Article 1, assessments are carried out to reach conclusions regarding how planned or fulfilled activity meets the requirements of the environmental laws, rational use and restoration of natural resources and environmental protection.

The law provides for state and public ecological expertise. The positive or negative conclusions reached by the state ecological expertise provide an assessment of possible environmental, social and economic consequences. A decision regarding the project, however, is not a part of the ecological expertise. If the MEPNS makes a positive conclusion, this provides the authority for proceeding with project financing. In the event of a negative conclusion, the project initiator must revise the project based on the conclusions and then reapply for another state ecological expertise; project financing without positive conclusions of the ecological examination is prohibited by law.

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[8] In addition to the above mentioned laws, the Council of Ministers has issued the following decrees: "Concerning Utilization, Neutralization and Burial of Toxic Wastes," 30.05.84, no. 230; and "Concerning Regulation of Import into Ukraine and Transit through its Territory of Wastes," 1984, no.117. To implement these decrees, the Sanitary Epidemiological Service promulgated the statutory documents known as "Sanitary Norms and Rules about the Order in Accumulation, Transportation, Neutralization and Burial of Toxic Industrial Wastes."

Economic Instruments

Ukraine has developed a fairly sophisticated system of economic instruments, which incorporate the "polluter pays" principle. Section X of the Basic Law provides the over-arching legal authority for imposing financial incentives and disincentives for environmental management. In this regard, Article 43 authorizes fees for utilizing natural resources and fines for polluting the environment. The Cabinet of Ministers adopted a decree, known as the "Procedure of Determination of Fees and Receiving Fines for Contamination of the Natural Environment, no.18, 13.01.92, to implement this aspect of the Basic Law. In 1993, a corresponding schedule of fees was adopted. Several sectoral laws[9] have specific provisions to capture these fees and fines.

Payments are enforced for utilization of land, water, forest and mineral resources as well as for hunting and fishing activities. Payments are also enforced for air pollution from fixed and mobile pollution sources, water waste discharge in surface sea and underground water, and allocation of waste products. Legislative acts provide for higher payments for environmental pollution over allowable levels and compensation for losses resulting from violations of the Law of Environmental Protection. In this latter case, the infringer bears financial responsibility regardless of liability under administrative or criminal proceedings.

The new Water Code states that all water consumers should pay for utilization of water; earlier, only private persons and industrial enterprises had to pay. A user can receive tax exemptions and credits and other benefits if the user adopts technology that purifies, limits consumption and/or recycles water.[10] The permit fee is based on the amount of pollutants discharged into the receiving body of water.

The Forest Code introduced economic incentives for protecting forest resources, sanctions for violations and remedies for damage. The fees for timber resources are based on the species, quality of wood and territorial zones. License fees for hunting are based on the species of wild animals hunted.

Article 44 of the Basic Law provides that fines for polluting the environment "are collected from the profit remaining at the disposal of enterprises, institutions, organizations or citizens." This means the polluter pays fines from its net profits. A 1992 decree modified this provision by capping pollution fines at five percent of an enterprise's total profit.

Article 45 of the Basic Law provides that the national and local governments will split 50-50 the fees collected. National, oblast and local governments split the revenue collected from pollution fines based on the following percentages: 10 percent to the national government, 20 percent to the oblast governments and 70 percent to local governments.

The pollution fines go into extra-budgetary funds (EBFs) established at the various levels of government. EBFs represent an innovative mechanism which seek to serve as long term financing

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[9] "On Payment for Land, " Act, 1992; "Water Code," 1995; "Forest Code," 1994; "Code on Mineral Resources," 1994; and "On the Fauna" Act, 1994.

[10] In addition, the Cabinet of Ministers issued the resolution, "On Approval of Procedure of Making Payment for Special Use of Fresh Water Resources and Provisional Rates of Payment for Their Special Use," 08.02.94, no. 75.

mechanisms for restoring polluted resources and controlling future environmental degradation. EBFs also receive revenue from:

- proceeds from the government sale of confiscated products made from illegally obtained natural resources;
- contributions from enterprises, organizations and individuals;
- pecuniary judgments for violation of provisions in Environmental Protection Law.

A novel economic experiment was undertaken in the Lviv region in 1993. The experiment entailed levying a fee on business enterprises (holiday homes, tourist facilities, sanitariums) engaged in the recreational service industry involving natural resources.

The Law of the Ukrainian Natural Reserve Fund and other laws regulate the problems of financing reserve territories. The law states that reserve territories are financed first by the national budget. Additionally, funds from local budgets, external funds and other sources may be used. The income gained by natural reserves and national parks from tourist and excursion activities can be accumulated in out-of-budget funds and used for maintaining the territories. Attraction of additional investment sources and effective utilization of available funds represent continuing problems.

Public Participation

The Basic Law introduced significant opportunities for public participation in environmental decision-making. Articles 9, 10 and 11 in Section II, "Ecological Rights and Duties of Citizens" provide for such rights as access to environmental information, participation in public ecological assessments, and citizen suits. Article 21 provides for "Powers of Public Associations in the Field of Protection of the Natural Environment." In addition, the "Law on Information," enacted in October 1992, which governs general access to government information, also could apply to some environmental information. The latter law also provides a right of administrative and judicial appeal.

Several recent sectoral laws have provisions dealing with public participation. For instance, the Forestry Code and the Subsoil Code (27.07.94) have general provisions on public participation in the protection, use and restoration of the natural resources. Both laws, however, fail to provide specific provisions on how to implement public participation obligations.

Article 11 of the Law on Ecological Expertise provides that public hearings or open meetings can be held. This law, however, fails to state in what cases and when public hearings are mandatory. The law does not establish a coherent ecological expertise process that includes public hearings or other procedures. Decision-making authorities may -- but do not have to, consider the advisory conclusions reached by the public ecological expertise when making their decisions regarding the reviewed project; the mechanism for reconciliation between the results of governmental and public ecological examinations has yet to be determined.

The "Law on Measures for Sanitary-Epidemiological Welfare of the Population of Ukraine," has the most substantive enforcement provisions regarding public participation of any Ukrainian environmental law. It specifies the authority and responsibilities of state sanitary-epidemiological services and outlines the rights and duties of citizens and enterprises in the area of sanitary-

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epidemiological welfare. This law has explicit provisions concerning administrative and financial remedies that can be imposed on the violators.

Tourism

The "Law of the Ukraine on Tourism," (LUT) 15.09.95, no.324/95-BP represents a comprehensive attempt to provide a legal framework for developing tourism as a cost-effective field of the economy. This proves noteworthy since the law recognizes the various components that have to work together to have effective tourism law and policy. While the LUT represents the primary law governing tourism related matters, approximately 24 other laws and regulatory enactments exist that impact on tourism -- many of which have explicit references to tourism.[11]

The LUT, as is common with other Ukrainian laws, takes a very inclusive approach and covers many areas. In its 33 articles in 10 sections, the LUT covers such things as currency controls, jurisdictional responsibility, customs, the environment, land use and ownership, construction, finance, contracts, labor, crime, licenses and health. The law's 16 major policy directions specified in Article 3 provide an example of the broad, declarative approach the law often takes. For instance, one policy directive calls for the "creation of economic conditions that stimulate development of tourism in Ukraine."

The LUT tries to achieve its strategic needs by designating responsibilities and delegating authorities, and requires the State Committee of Ukraine on Tourism (SCT) or "Derzhcomtourism" to carry out designated policy.[12] In addition to SCT, Article 7 establishes an inter-governmental advisory committee, the National Council for Tourism (NAT) to coordinate government activities. Coordinating government policy at the different levels of government is needed. However, unlike the SCT, the NAT does not have a permanent staff and independent budget. The SCT remains the government entity with administrative authority.

Various terms are defined in Article 1. For instance, a tourist is defined as "a person traveling in Ukraine or to other countries with various purposes not prohibited by the law of the country of stay for a period from 24 hours to six months without carrying out any paid activity and with the obligation to leave the country or place of stay within a specified period of time." This definition

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[11] Some of the additional laws and regulatory enactments are: "The Constitution of the Ukraine, art. 39;" "Fundamentals of Ukrainian Law on Health Protection," art. 32, 19.11.92; VVRU- 1993. -no.4, p.19, no.11, p.93, no.15, p.132,1994. no.28-__, no.41, p.376, no.45, p.404; "On Physical Culture and Sports," art.10 & 32, 24.12.93, VVRU 1994, no.14, p.80; "On Promoting Youth Social Formation and Development in Ukraine," art. 11 & 12, 05.02.93, VVRU 1993, no.16, p.167; "On the Fundamental Principles of Labour Veterans and the Other Senior Citizens in Ukraine," art. 31, 16.12.93, VVRU 1994, no.4, p.18; "Land Code of Ukraine," 13.03.92, VVRU 1992, no.25, p.354; "Law on the Protected Areas or Territories of Ukraine," 16.06.92, VVRU 1992, no. 34, p.502; "Strategic Lines of International Technical Assistance to Ukraine in 1995-1997," 14.06.95, Collection of the Resolutions of the Cabinet of Ministers of Ukraine, 1995, no.8, p.221; "On the State Border of Ukraine," 04.11.91, VVRU 1992, no.2, p.5; "On the Border Troops of Ukraine," 04.11.91, VVRU, 1992, no.2, p.7; "On Militia," 20.12.91, VVRU, 1991, no.4, p.20; "On Veterinary Medicine," 25.06.92, VVRU, 1992, no. 36, p.351; "On Plants Quarantine," 30.06.93, VVRU 1993, no.34, p.352; "Customs Code," 12.12.92, VVRU, 1992, no.16, p.203, no.35, p.511.

[12] Derzhcomtourism's extensive list of responsibilities are specified in "Collection of the Resolutions of the Cabinet of Ministers of Ukraine," 1993, no. 12, p.271.

assumes tourists are international visitors and does not consider domestic tourists. An excursion activity is defined as an "activity on organizing tours not longer than 24 hours with participation of experts-excursion guides along pre-set routes for the purposes of learning about monuments of history, culture, nature, museums, sights, etc." On the other hand, the World Tourism Association provides a simpler definition for same day visitors as "a visitor who does not spend the night in a collective or private accommodation in the country visited."

The purpose of Article 10 proves puzzling, it refers to the incomes from tourist enterprises as though they are state owned. This may be the case in some situations, but as enterprises are privatized such a provision may need revising. It is also interesting to note that this article provides that part of the profits of tourist activity may be transferred to local budgets for the purpose of preserving the natural, historical and cultural environment.

Article 11 of the LUT contains several provisions for developing novel internal and external sources of financing.[13] These options include foreign investments, the establishment of a Tourism Development Fund from business deductions and a tourism lottery. Potential domestic and foreign investors will need to have the details of these provisions elaborated. Article 11, also mentions that for purposes of developing tourism those businesses involved in tourism may receive tax, credit and insurance incentives. However, this article fails to give any detail about how these incentives will be determined and what procedures to follow to benefit from them.

In regards to the Tourism Development Fund, the SCT levies a one percent tax on tourism activities. Reportedly, not all enterprises that engage in tourism activities pay into this fund. Some of the large enterprises pay, since they do want to run afoul of the SCT. Questions have arisen as to how the SCT uses the funds that it collects. Many state committees and ministries are establishing similar funding mechanisms to finance their activities. Such funding mechanisms often prove controversial. In addition to this national tax, regional and local governments are experimenting with tourism taxes. For example, Lviv established a tourism tax to promote tourism, but ended up using the revenue for other activities.

The SCT has the authority to issue licenses to organizations engaged in tourism activities pursuant to Article 13. This article also provides that, in some instances, the SCT can delegate the authority to issue licenses to local bodies of state executive power. The LUT specifies that the SCT "...shall establish the procedure of granting them (licenses), conditions and rules of carrying out tourist

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[13] Additional regulatory enactments that govern commercial aspects of tourism are as follows: "On Entrepreneurship," Resolution of the Cabinet of Ministers of Ukraine, 17.05.94; "On Provisions on the Order of Issuing Special Permits (Licenses) for Certain Types of Activities to Business Entities," by Provisions on the State Committee of Ukraine on Tourism adopted by Resolution of the Cabinet of Ministers of Ukraine 12.08.93; Orders of Derzhcomtourism 27.08.94, "On the Terms and Rules of Doing Business with Respect to Tourist Services Provision and Control Over their Observance," and "On the Order of Issuing Special Permits (Licenses) for Certain Types of Activities to Business Entities;" Decrees of the Cabinet of Ministers, "On Currency Regulation System and Currency Controls," and "On Settlements in Foreign Currency;" Resolutions of the Board of the National bank of Ukraine: "On Procedure for Foreign Currency Circulation in the Territory of Ukraine," 14.03.93 and "On the Use of Foreign Currency as Legal Tender in the Territory of Ukraine," 16.05.95; see also "Procedure for Currency Movement Across the Customs Border of Ukraine," approved by the Board of the National Bank of Ukraine 14.03.93 and by the State Customs Committee 17.03.93.

activity and supervise their observance." Article 14 provides a somewhat nebulous list of the types of enterprises subject to licensing. Article 15 specifically mandates licensing of hotels and catering services.

Taxation

The tax regime has been marked by confusion, with laws and regulatory enactments being revised, revoked and reinstated. The legal chain of events will not be cited herein, only reference to when a tax law was enacted and what the current law is thought to state. The four main taxes are a corporate income tax, a personal income tax, a value added tax (VAT), and an excise tax. The "Act on Taxation Liability," and the "Act on Territorial People's Councils," provide the basis for Ukraine's tax regime.

The "Act on Taxation from Profits of Enterprises," was published in mid-February 1995. The tax basis changed from gross income to gross profit. A tax rate of 30 percent applies to most enterprises. The Act defines production cost which has an impact on the amount of generated income. Defining income has been an on-going problem in the tax law. The Act introduces the concept of goodwill as a factor to consider when valuing an enterprise. Enterprises established after 1 January 1995 with foreign capital participation no longer enjoy a five year tax holiday. A variety of social taxes (Chernobyl fund, pension fund, social insurance fund, work fund, and handicapped fund) also apply.

The Cabinet of Ministers issued "The Decree on Personal Income Tax," on 26 December 1992. This decree introduced a progressive income tax formula based on the value of the minimum wage. The tax rate was changed from a minimum (0% of profit, which is less than a minimum tax free wage) to a maximum (for profit more than 100 tax free wages, the tax rate is 30% of the amount of profit exceeding 60 minimum tax free wages plus 40% of the amount of profit exceeding 100 minimum tax free wages). Legislative actions have been amended many times to provide for a more effective and rationalized taxation system.

Indirect taxes such as an excise tax and a VAT have been in place since 1 January 1992. The excise tax applies to luxury goods with rates varying from 10-300 percent. The VAT applies to sales transactions on goods and services, which are taxed at 20 percent.

The primary revenue tax sources for the Central Government come from the above identified four main taxes. Local authorities receive a share of these taxes, but the distribution of revenue to the various local authorities is determined on the basis of a yearly Budget Act and can vary. Local authorities can also raise revenue from transportation and land taxes.

The authorities in the Zakarpatska Oblast have advocated for the last several years the establishment of Carpathian Economic and Ecological Zone (CEEZ) to encourage trade and investment. The proposed CEEZ would be a free trade zone and provide for additional commercial privileges. Such status would enable oblast authorities to set tax rates and trade regimes. The "General Principles of Establishment and Operation of Special (Free) Economic Zones," VVRU 1992, no.50, p677 provides the Central Government with the legal authority to establish such a zone.

Investment

On 19 March 1996, the Ukrainian Parliament adopted a new and improved investment law -- "On the Foreign Investment Regime." Technically, the law will not go into effect until it is published in an official newspaper. The law defines "enterprises with foreign investments" as having at least 10 percent foreign ownership in the charter capital. Moreover, no minimum foreign capitalization requirements are stated. The law recognizes five basic methods for foreign investors to enter the market:

1. formation of joint ventures;
2. acquisition of stock in existing enterprises;
3. creation of wholly-owned foreign subsidiaries;
4. acquisition of real estate (including apartments, houses, land use rights, etc.);
5. acquisition of property rights by purchasing securities (stock, etc.) of enterprises with such property rights.

Foreign investments must be registered with local authorities in order to enjoy rights and privileges. Foreign investors have the right to repatriate their profits abroad, but only after the investor pays a fifteen percent repatriation tax and other mandatory payments and/or obligations the investor may have in Ukraine. The actual procedure for transferring profits abroad is governed by separate instructions issued by the National Bank of Ukraine. An unusual feature of the law provides that foreign investors can seek damages (losses of profit and moral injury) resulting from negligent acts, or the failure to perform an act, by state organs. Any imported in-kind foreign contributions designated to the company charter fund are exempt from customs duties. This exemption, however, does not apply to imports destined for distribution (sale).

Privatization

The laws that laid the basis for privatization in late 1991 and early 1992 were: "The Law of Privatization of State Property of State Enterprises;" "The Law on Privatization of Small Enterprises;" and "The Law on Privatization Certificates." These laws categorized all enterprises into sub-groups. Each subgroup has different conditional requirements for privatization. The categories are as follows:

Group A -- Small enterprises, whose asset value was less than 33 billion karbovanets as of the autumn of 1995 (exchange rate at this time was roughly 170,000 karbovanets to 1 US dollar).

Group B -- Medium enterprises, with an asset value between 33 billion karbovanets and 2,150 billion karbovanets, and could be fully privatized by closed subscription, while not, at the same time, belonging to Group D subgroup. Closed subscription meant that workers, through the privileges granted them in the privatization process, could buyout the entire enterprise for themselves.

Group C -- Medium enterprises, with an asset value the same as in Group B, which can not be fully privatized by closed subscription, as the assets are to great, and not, at the same time, belonging to Group D subgroup.

Group D -- Enterprises with an asset value greater than 2,150 karbovanets, and/or holding a monopoly position, and/or belonging to the military-industrial complex, and/or selected for privatization by a foreign investor.

Group E -- Objects whose construction is not complete, or enterprises which have already been liquidated.

Group F -- Companies which are of mixed ownership (part state and part private), where the state is putting up for sale its shares in the enterprise.

The system was further complicated as the methods of sale expanded to include: buy-outs from the State Property Fund; competitive tenders; auctions of assets, of shares, or of an entire enterprise; open share sales on the stock exchange; and sales of leases with buy-out options.

The President issued several decrees in late 1994[14] to spur the privatization program. To accelerate privatization at oblast and local levels the President issued decree no. 827, which stipulates that eighty percent of the proceeds from small scale privatization goes to municipal budgets. This decree was followed by the Constitutional Accord signed by the President and Parliament on June 8, 1995. The accord provides the President with direct line authority over oblast and municipal government authorities. If local government authorities fail to meet the President's quantitative targets for small scale privatization, they will face serious consequences. To further solidify the privatization program the President issued "On Measures for Conducting Privatization in 1995," no.468, 23.06.95 and "On the Privatization and Leasing of Non-agricultural Land Plots Used in Enterprise Activities," no.608, 12.06.95. The former decree will remove the artificially high rate for karbovanets that foreign investors had to pay when purchasing privatizing enterprises. The latter will provide Ukrainian legal entities and enterprises the right to buy, sell, lease, grant and bequeath the land on which they are located.

Stocks and Securities

Thirteen privatized open joint stock companies began selling their shares on the Ukrainian Stock Exchange pursuant to regulations specified in Presidential decree, "On the Participation of the Ukrainian Stock Exchange in the Privatization Process," no.146, 27.02.95. Work continues within several government ministries on the development of an independent share registry system which will provide privatized firms the opportunity to trade share on the exchange, with the rights of investors firmly guaranteed and regulated.

At the beginning of 1996 approximately fifty firms were listed on the stock exchange, but trading was very weak and the stock exchange has not played a significant role in raising capital for firms. To spur the development of the stock market as a mechanism for raising capital and facilitating privatization, the President issued "On the Commission for Securities and Stock Market," no.446, 12.06.95. This decree seeks to strengthen the embryonic stock exchange by establishing an agency to coordinate government policy affecting the regulation and monitoring of the securities market.

With the introduction of mass privatization, a nascent capital market has been established with close to 500 investment funds and trust companies licensed to work with various forms of securities. Currently, two groups exist: one permitted to deal with tradable securities and one that deals only with non-tradable or non-cash securities. The State Property Fund monitors the

[14] "On Actions for Protecting the Rights of Citizens in the use of Privatization Property Certificate," no.699, 26.11.94; "On Actions for the Introduction of Named Privatization Property Certificates," no.809, 27.12.94; and "On Actions for Acceleration of the Small Scale Privatization Process," no.827, 30.12.94.

intermediaries that work with non-tradable privatization certificates. Tradable savings compensation certificates were introduced at the beginning of 1996.

5. INTERNATIONAL COOPERATION

Selected bilateral and multilateral agreements that Ukraine has ratified and accepted are examined in this chapter to assess how international cooperation may play a role in future environmentally sound economic development of the Carpathian region. The favorable, as well as constraining, impacts of such agreements on national and local regulation and action are analyzed.

Ukraine is a signatory to many bilateral and multilateral international agreements that can potentially impact small- and medium-sized eco-efficient business development in the Carpathian region. Such agreements are concerned with environmental, tourism, cultural, border and regional cooperation issues, for example.

When it comes to economic development in the Carpathian region, these international agreements can play both facilitative and constraining roles. For example, the capacity to develop the Carpathian region economically and in an environmentally sound fashion is closely tied to existing and potential international mechanisms for cooperation with Ukraine's neighbors that share the Carpathian Mountain range. Such mechanisms can multiply the resources that Ukraine can bring to bear for development purposes by drawing upon the pooled resources of other countries and sharing in the joint benefits of cooperation. At the same time, some international agreements which Ukraine has ratified commit the country to implementing and enforcing certain types of behaviors and standards that can curtail or impinge upon near-term economic development in the Carpathians. Such commitments may elevate particular goals in the short term, such as preserving biological diversity, at the expense of limiting development in park lands and protected areas for tourism purposes. However, the objective over the long term is to seek harmonization of both economic growth and environmental protection.

Environmental agreements

Since independence, Ukraine has become a party to many bilateral and multilateral environmental agreements. These agreements entail certain obligations and commitments that Ukraine promises to adhere to in order to mitigate the load on the natural environment from manmade sources, to remediate polluted areas, and to conserve the environment and biodiversity. In assuming these international obligations, Ukraine has agreed to incorporate internationally recognized concepts of sustainable development and ecological safety standards into its national legislation and policies. Effective approaches, including financial mechanisms to accomplish these commitments and incentives for government, industry and the public to encourage compliance with these obligations are still evolving.

Before independence, Ukraine was party to approximately 24 multilateral environmental agreements. Since independence, Ukraine has become a party to about 38 such agreements, suggesting a rapid growth in Ukraine's environmental priorities. These agreements cover a wide range of environmental concerns, including transfrontier pollution, nuclear safety, marine and atmospheric pollution and conservation, protection of cultural and natural heritage, and the hazardous impact of military activities. With the 1994 passage by the Supreme Rada of the Program for Prospective Development of Reserve Management, increased activity will be focused

on joining several additional existing international agreements concerning biodiversity and conservation of wildlands and wildlife.

One of the most critical issues that must be addressed is not *which* international agreements have been accepted, but *how* such agreements are implemented. Since 1991, Ukraine has enacted almost 200 environmental statutory laws that lay the legal and institutional groundwork for organizing environmental activities in Ukraine. The legal basis may now be in place, but other factors still serve as barriers to efficient implementation.

- Given the current economic situation, it is difficult to sidetrack funds from economic development projects to improve or stimulate environmental protection.
- More creative and enforceable incentives are needed that promote not only business growth, but environmental efficiency at the same time.
- Regional differences and needs must be accounted for in planning for the implementation of environmental regulations.
- The legal and economic systems must achieve a certain degree of stability and confidence before domestic or foreign business people are willing to abide by environmental regulations that restrict activities.

Tourism agreements

Ukraine has signed bilateral intergovernmental agreements with over 30 countries on tourism and related issues, such as cooperation on trade, science and technology, culture, education and environment. In addition, Ukraine has ratified 22 multilateral agreements that seek to govern tourism-related issues, including passenger transportation, consular affairs, customs, and cultural relations.

The principal objective of all of these agreements is to harmonize Ukraine's national legal system with international standards. The 1995 Tourism Law, as well as other regulations, have laid the foundation for putting Ukrainian approaches concerning passport and visa, currency, and customs regulations, for example, in line with international practice. However, these national laws, as well as the bilateral cooperation agreements, are so recent that there is little data on their effectiveness. Basic mechanisms for implementation for most of these regulations and agreements are still lacking.

Regional agreements

Cooperation with the countries along Ukraine's western frontier -- Poland, Slovakia, Hungary and Romania -- has taken on new vigor since 1991, focusing on issues of mutual concern including trade, tourism, business development, environment and political issues.

Several bilateral agreements with Poland, Slovakia and Hungary govern natural environmental protection in the near-boundary territories and deal with conservation, waste management, monitoring, accident advisories, impact assessments, information exchange, and, in the case of the Hungarian agreement, tourism-specific issues. Bilateral agreements on the coordination of transport corridors with Hungary have had concrete results. These agreements recognize the necessity for coordinated action to deal with transborder issues effectively and highlight how possible competitors can come to view cooperation as more beneficial. They stipulate the

harmonization of plans, projects and standards for monitoring, technology transfer and economic development, including tourism. Joint steering committees at the ministerial levels have been formed to guide these activities with Hungary and Poland.

Several of these agreements have yielded concrete actions and progress in regional relations. For instance, with Hungary, the conditions of Carpathian forests are being assessed, joint measurement of soil conditions are being carried out, and eco-efficient industrial joint ventures are being established. With Poland, joint monitoring of radiation, transfrontier waters and ambient air quality are under way, control and prevention of illegal waste movement across the border is being assessed, and environmental impact assessments of economic activities are being conducted. The Slovakian agreement is very new and a Romanian accord has yet to be developed.

On the multilateral level, Ukraine is a signatory along with Poland and Slovakia in several tripartite agreements dealing with biodiversity conservation and reserve management in the Eastern Carpathians. These agreements stem from a mutual understanding among these participating countries that the only way to deal with the unique natural issues of the Eastern Carpathians -- its rare plant, animal, and forest ecosystems -- and use of the region for tourism and economic purposes is to coordinate initiatives. Implementation has incorporated development of coordinated national-level biodiversity conservation foundations. With the financial support of several charitable foundations and the Global Environment Facility, these foundations are establishing joint strategic, scientific, research and management goals for the region and financing local governments and organizations to accomplish these objectives. Under their auspices, further development of protective regimes for the national biosphere reserves in the Carpathians is being discussed, simplified border crossing mechanisms are being addressed, and regional tourism promotion strategies are being drafted.

Another major multilateral activity, accomplished primarily at the local transfrontier level, is embodied in the Carpathian Euroregion Association which consists of representatives from 22 local administrative and territorial units from Ukraine, Poland, Slovakia, Romania and Hungary. This association has a Secretariat structure that rotates periodically among its members and is currently housed in Uzhgorod. It draws upon the unique strengths and obvious self-interested motivation of the local authorities to work and coordinate activities with their counterparts from other countries, all outside of the traditional central government structure. As a result, ideology and bureaucracy are at a minimum. The association is based on the model of many other Euroregion associations throughout Europe and has developed cooperative programs, activities and work groups in the fields of environment, tourism, economic development, customs-free zones, special economic zones, transport, culture, and humanitarian support. While progress has been made in all of these areas, the Carpathian Euroregion operation suffers from low levels of foreign investment, differential national involvement, and limited participation of the private sector.

6. IMPLICATIONS AND RECOMMENDATIONS

Based upon the preceding situational assessment, implications and recommendations for environmentally sound small business development in the Carpathian region are drawn and presented in this chapter. These conclusions cover social and economic, environmental, legal and international cooperation concerns.

SOCIAL AND ECONOMIC CONDITIONS

Implications for Environmentally Sound Small Business Development

Ukraine's management of the macroeconomy has not reached a level of stability, in which normal and productive business activity can flourish. Many macroeconomic indicators, management of the currency exchange rate, and inflation have not stabilized for a sufficient period to provide confidence in the investment climate. Neither are institutions in place to lower transactions costs associated with contracting, ownership and other activities of a market economy. Thus, it is difficult to make confident predictions about developments in the macroeconomy, let alone the microeconomy of the Carpathian Region, as government policies and the government's capacity to implement them are so uncertain.

The following socio-economic conditions give rise to **barriers** to sustainable development in the Carpathian region.

- Low birth rates and high death rates portend a declining and aging population that can lead to a declining labor force and a population that is increasingly dependent on government for social security and health care. It does not provide promise for an energetic, entrepreneurial labor force.
- The labor force in the region is patterned after the structure of a centrally planned economy, with emphasis on work in heavy industry or agriculture. The labor force is not experienced to operate in a service economy emphasizing tourism. There are wide gaps in skill and sophistication between the urban communities and the rural areas and generally there appears to be little entrepreneurial potential in the existing population and relatively little experience in the development process.
- Income levels suggest there is little potential to draw on savings for capital development funds. Investment capital in the nation as a whole is in short supply. The region will be highly dependent on foreign direct investment if it is to be marketed as a tourist destination.
- The level of foreign direct investment (FDI) required is far beyond the country's means. Despite that fact, Ukraine has already experienced problems in absorptive capacity due to institutional deficiencies. The following problems are usually cited by foreign and domestic investors:

  [a] Political instability and changes in economic policies;
  [b] Complicated legal infrastructure;
  [c] Extensive taxation, complex regulations, and excessive discretionary power given to tax authorities;
  [d] Absence of modern contract law, commercial codes, and judicial enforcement;

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[e] Lack of an adequately developed Pledge Law;
[f] Lack of an appropriate capital market structure;
[g] Limited protection of the rights of minority stakeholders;
[h] Poorly developed financial sector;
[i] High degree of monopolization by state-owned enterprises and limited capacity of the Anti-Monopoly Committee;
[j] Complex and slow privatization;
[k] Lack of awareness of economic reforms by local authorities;
[l] Corruption and organized crime;
[m] Insufficient managerial skills of Ukrainian managers;
[n] Limited international experience of Ukrainian business people and governmental officials.

- Economic policy since independence has been plagued by political instability at the national level.

- Ukraine can no longer expect to be approached with tolerance and given special access to the markets of well-developed countries, especially those of the European Union. These countries are less willing to tolerate interventionist measures and, as a result, Ukrainian exports of raw materials and intermediate products encounter serious obstacles. This, in turn, prevents substantial improvement of the balance of trade and payments.

- High levels of non-compliance with environmental regulations and existing "hot spots" in the CR discourage potential investors and tourists.

- Insufficiently decentralized authority at the regional and local levels combined with insufficient financial resources and very complex governmental structures have created resource and institutional barriers to closer collaboration with the national government in support of infrastructure development.

- Consideration has been given to the creation of free economic zones (FEZ) in various regions of the country. Given such status, tax rates and trade regimes would be set and administered by the local authorities. However, many regions had their proposals turned down by Parliament with the argument that this sort of regionalism threatened national sovereignty. Still, without macroeconomic stability at the national level, the zone schemes are unlikely to result in growth and development.

The following socio-economic conditions give rise to **opportunities** for sustainable development in the Carpathian region.

- The preservation of old world crafts, customs and traditions, as well as interesting ethnic mosaic are valuable assets to be built on.

- The traditional connection of the Carpathian residents to their environment offers the potential for developing labor intensive sustainable agriculture, agro-tourism, and bed & breakfast tourism.

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- Relatively high energy prices and shortages in the fuel and electricity supply will be also considered by potential entrepreneurs as opportunities for developing eco-efficient businesses. Further development of the economy in the CR should be realized mainly on the basis of more ecologically safe technologies in power generation.

- The economic instability and the existing inflation threat made it impossible to finance the deficit by issuing Treasury debt securities. However, the success of an auction of Treasury bills at the end of 1995 provides some hope for increasing revenues, providing inflation, exchange rates and the country's trade balance are kept within moderate bounds. The main reason for the fiscal crisis between 1991 and 1995 was the excessive level of expenditures and the financing of state enterprises via the State budget.

- The current acceleration of privatization should help to reduce deficit spending, increase revenues, and create more opportunities for domestic and foreign investors.

- The promising institutional reform of the city government in Lviv creates a model for the CR of small but task-oriented effective government with a quite well developed participatory network.

Recommendations

- A focus should be on designing appropriate institutional reform that will decentralize power to local authorities and clarify competency within the Cabinet of Ministers (CM) and between the CM, the Office of Presidency, and the Parliament. Increasing institutional capacity will strengthen private property and other institutions of the market economy, thus removing barriers for investment.

- Regional and local governments in the CR should focus more on improving business climate within their jurisdictions, particular by simplifying and reducing taxes, improving skills of their staff, entering into collaboration with neighboring governments, and matching funds with the private sector for infrastructure investment for environmentally sound business.

- The business sector in the CR should invest in upgrading its managerial skills and improving conditions for absorption of new capital, thus enabling design of new investment projects and efficient management of their own firms.

ENVIRONMENTAL CONDITIONS

Implications for Environmentally Sound Small Business Development

There are several conditions that make it possible to promote sustainable economic development initiatives which will protect or improve the Carpathian environment: (1) high energy prices and fuel shortages make energy efficiency and alternative energy sources attractive; (2) increasing timber prices make it profitable to use wood resources more efficiently; (3) newly created laws that impose resource use fees, pollution limits and fees, fines for noncompliance, credits for conservation friendly initiatives, and criminal and civil liability for environmental damages create incentives for resource conservation and pollution prevention; (4) tourism, which has a high

potential to contribute to regional economic development, requires the natural environment to be clean and intact; and (5) citizens, government employees, and scientists are becoming increasingly aware that environmental protection is an important input to social and economic development.

On the other hand, there are two opposing forces that make it difficult to use business development to promote improvements in the Carpathian environment: (1) noncompliance with environmental regulations is high, because standards are set unrealistically high, government and industry monitoring is inadequate, enterprises and municipalities lack the financial and technological resources to comply, or enterprises and municipalities are simply ignoring the laws. Widespread noncompliance has in turn forced regulators to ignore environmental violations, and this practice may be setting an undesirable precedent; and (2) declining economic conditions raise the opportunity costs of forgoing economic benefits now for economic and environmental benefits in the medium- or long-term. Struggling enterprises cannot afford to invest in technologies that have a payback period of 3-7 years, and government regulators prefer to allow noncomplying enterprises to continue operating because shutting them down would increase unemployment.

Given the strong possibility of noncompliance, business development efforts should ideally focus on business opportunities in which noncompliance leads to lower profitability (e.g., reconditioning and selling a waste product). Most business ventures, however, will have the potential to impact the environment negatively and thus some government enforcement will be necessary. To further ensure that business ventures that contribute to environmental degradation are not encouraged, business development efforts should focus in areas where rayon and oblast government representatives support environmental protection.

The success of tourism development is closely linked to Carpathian residents' ability to maintain and, in some areas, improve the region's environmental quality. Tourists come to the Carpathians to take advantage of the pristine environmental conditions: clean air, clean water (fresh and mineral), healthy terrestrial and aquatic ecosystems, and scenic views. Decreases in the quality of these resources decrease their tourism value. Even in areas that are relatively pristine at the present time, there are potential pressures that may arise with increasing economic development. For example, while the Zakarpatskaya oblast currently has relatively low levels of pollution, it has a high population density (above the Ukrainian average). Thus unless the development path in this oblast differs from that taken by oblasts around it, there is a potential for economic development to increase pollution levels in the area significantly.

Tourism can also have negative effects on the area's ecosystems. More tourists in the area will put more pressure on already overloaded municipal wastewater treatment plants. In rural areas, where solid waste disposal facilities are nonexistent, influxes of tourists may contribute to dumping along rivers, roads, and forest margins. In the absence of protected area management plans, too many tourists visiting a protected area can negatively impact the ecosystem. Moreover, in the absence of zoning restrictions and regional planning, tourism infrastructure development can also lead to environmental degradation. Consumptive recreational uses, like hunting, have to be regulated in order to avoid overexploitation of the exploited resource (e.g., animals with large ranges, like bears). In an effort to attract more tourists, tourism operators and government personnel often try to enhance the native populations of fish and mammals. Such efforts, particularly if they involve the introduction of exotic species (e.g., loach), can also have negative impacts on regional flora and fauna. Another potential threat from tourism is forest fires. On average, 1900 forest fires erupt annually on an area of 1200 ha, according to the National Program of Environmental Protection and Rational Use of the Natural Resources of Ukraine (Oct/Nov 1994: 17).

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Public enterprises are the source of much of the pollution in the Carpathian area and are an important threat to the integrity of forest ecosystems. Thus, if environmental improvements are a primary goal, then it is likely that we will have to work with public enterprises, rather than work exclusively with private enterprises. Moreover, since 75% of air pollution comes from about a dozen plants, we cannot achieve significant reductions in air pollution unless we work with these plants. Improvements in water pollution through business development can best be achieved through the timber and chemical industries. However, if the goal is to reduce water pollution substantially, the focus will need to be on municipal dischargers because they are the biggest source of water pollution.

There is a need to increase the productivity of Carpathian forests. Foresters often try to increase productivity by planting fast growing exotic species. Such introductions are not necessarily bad, but their environmental impacts should be noted and steps should be taken to ensure that exotic plantations do not replace significant amounts of productive natural forest ecosystems. The Carpathian region is a refuge for Ukrainian biodiversity and we do not want to encourage forestry operations that conflict with biodiversity conservation goals on a large scale. Good places for exotic plantations are nonarable lands, degraded farm lands, and eroded grazing lands. If reforestation on these lands is not profitable under the discount rates used by private enterprises, than it may be beneficial to cede these lands to the Ministry of Forestry rather than to privatize them. Prior to privatization, it may also be desirable to redirect other lands to permanent vegetation, and in this way help to protect watersheds, terrestrial and aquatic wildlife habitat, and easily eroded soils.

There are many opportunities for waste reuse and recycling in the region. Such activities have been shown in other areas of the world to provide substantial local jobs as well as improving local and regional environmental quality. The largest economic benefits from these activities are generated when recovered materials are manufactured into finished products within the local economy. Because local governments are currently in charge of waste collection and disposal, the ability of private enterprises to enter waste collection has to be examined more carefully.

Ukrainian environmental standards are very high. If donors decide to involve themselves to promote new businesses through technical or financial assistance, they have a responsibility to decide if the proposed business can achieve these standards and then to ensure that they do. If a donor-financed project works with existing enterprises through discrete interventions aimed at helping the enterprises become more efficient, the donor has less responsibility in ensuring that the enterprises comply fully with current laws. A compliance schedule will need to be developed if the enterprise is not in compliance (although it is not clear that MEPNS has the authority to negotiate one) and certainly the donor assistance cannot contribute to increasing the enterprise's negative impacts on the environment, but the donor may need only to show that some improvement in environmental impact was achieved. There are bound to be some observers, however, who will insist that donors only work with enterprises that are in compliance with current legislation. Donor personnel will therefore need to consider carefully the possibility of negative criticism before they intervene in the field.

Recommendations

In the dismal economic climate of Ukraine and the Carpathian region, economic survival becomes the principal concern of the government and most citizens. Environmental problems, while

acknowledged, are often relegated to the background. Residents, enterprises and government in the Carpathians are under too much stress from declining economic conditions to make sacrifices for the environment, even if the sacrifices are expected to pay off financially in the medium-term. Thus although environmental regulations and monitoring are necessary to improve environmental quality, any significant improvements in environmental quality in the Carpathian region over the next decade will have to come from short-term, nonregulatory economic incentives. Given the outdated industrial methods in the Ukraine and the rising prices of natural resources, there are ample opportunities for achieving environmental gains through increased efficiency in business enterprises.

The residents in the Carpathians should be encouraged to focus on activities that have the greatest potential to generate economic benefits and environmental improvements. To ensure that environmental quality does not decline further, initiatives should be encouraged whose short-term profitability has no negative impact on the environment. Ideally, businesses or business opportunities will be recommended whose operation directly improves the environment (e.g., recycling operations) or whose profitability depends upon a clean environment (e.g., tourism). Initiatives should be chosen whose success does not depend upon improvements in current environmental enforcement or increases in local wealth.

Ideally the innovations generated will be widely applicable to many enterprises. Since neither the government nor business enterprises have large amounts of financial resources to allocate to supporting innovations in ecoefficient businesses, we should focus on introducing innovations that require little capital expenditure. Large capital expenditures may be necessary in some cases (although generally they will not be affordable), but approaches to solving problems (e.g., energy auditing, production process and waste stream auditing, etc.) have a greater chance of being replicated throughout the region and can be applied even if donor funding stops.

The ideal initiatives will focus on one sector but have strong impacts or links to multiple sectors. In particular, efforts to initiate a pilot business project are not worth the time and financial investments unless the pilot project will have wider impacts on a sector or industry. For example, helping businesses substitute agricultural materials for petroleum-based products (1) helps environmental protection by reducing pollution associated with the processing and use of petroleum products, (2) reduces the need for government subsidies; (3) it helps industrial development by reducing input costs, and (4) it helps farmers by increasing demand for agricultural output. Another example is the manufacturing of construction materials from cellulosic wastes. Such an enterprise helps consumers and construction companies by reducing construction material costs, and helps wood and agricultural processors by creating an asset out of former waste products.

Finally, any field interventions should attempt to tap into Carpathian residents' traditional connection to their environment. According to a document describing the literature of the Carpatho-Rusyn people, "among the most dominant themes have been a love for what is considered the pristine beauty of the Carpathian mountains...." (Magosci, 1995) In the long-term, environmental protection will be maintained only if it is a valued good in its own right.

LEGAL CONDITIONS

Implications for Environmentally Sound Small Business Development

A problem with the Ukrainian environmental regulatory regimes is that the standards are too high; this combined with a lack of resources and out-dated technology makes for an ineffective system. In addition, many regulatory acts lack concrete definition and a public legal culture is currently at a low level. For the most part, people realize this situation exists. Thus, people fail to have respect for the rule of law since they realize the law bears no relation to reality.

Forestry and Biodiversity

Jurisdictional conflicts and overlaps among ministries contribute to enforcement problems. Natural resource management problems often do not receive attention because they are not seen as falling within the jurisdiction of any particular ministry or because so many ministries conceivably have jurisdiction. Consequently, none of them take the initiative to address the problems given the scarce resources available for implementation and enforcement. The situation is further complicated since forest resources represent an asset which many ministries want to control. This situation invites abuses of privilege and a lack of accountability.

The provision in the wildlife law which seeks to link protected areas has the potential to protect wildlife significantly by avoiding remnant islands of protection which would otherwise not be able to sustain a representative sample of wildlife. Legislation regarding animate nature could better serve nature protection if the protection of reserve territories is improved, their boundaries optimized and a system of specially protected territories formulated.

Water

Proponents of the ambient-based system argue that this system enables each discharger to have a specially tailored MAD. While conceptually sound, this system proves technically complex to administer. Thousands of potentially applicable MACs/MADs exist for each discharger on each body of water. The institutes and enterprises that prepare the calculations and the small MEPNS staff working at the oblast level are overwhelmed by the numerous calculations for the technical reviews. The permits, as a practical matter, usually include only five to twelve MADs -- not the hundreds specified in the list of standards. Furthermore, this system appears to lack scientifically sound procedures for complex constituents. Finally, this system has the potential to lead to pollution havens.

Air

The time period used for data averaging represents a critical factor when trying to regulate air quality control. A period of several months or a year would prove appropriate for some pollutants. For some pollutants, Ukrainian MACs are some of the most stringent in the world. In theory, no one is suppose to live in a sanitary zone around a polluting industry, but in reality large populations live near some facilities.

Waste Management

In light of the severe financial hardships oblast and local governments face, complicated regulatory regimes that require expensive technologies will prove impossible to implement.

Economic Instruments

In the current financial crisis, economic instruments have not proved effective since they cannot work if a good market does not exist. The numerous fees and fines are not high enough to make a financial difference for enterprises and are not enforced. Consequently, enterprises have not had a sufficient incentive to reduce pollution or install technology. High fines, however, prove problematic in the transitional economic climate where the government faces real concerns about avoiding additional economic strain and unemployment. Moreover, the 1992 decree exempted many enterprises from paying fines and fees until 1996.

The "paid-from-profits" fine system means that an enterprise that emits excessive pollutants and suffers a net loss for the year is not subject to fines. This system amounts to free polluting rights for an unprofitable enterprise by providing it with an incentive to disregard pollution controls in an effort to recoup a profit. Thus, an unprofitable enterprise believes it has nothing to lose by ignoring pollution laws. However, this system can retard growth by encouraging an enterprise at the borderline of profitability to pursue wasteful or risky expenditures with net profit rather than pay the profit as a fine.

The Basic Law lacks an oversight mechanism to ensure that EBFs are properly spent or to assess the effectiveness of financing. In regards to user fees, several recent laws saw a shift of revenue with a larger percent of the user fees going to the national government. This reflected a concern that local authorities had not used the fees they collected as mandated.

The economic experiment in Lviv, while initially successful in raising revenue, was stopped owing to legal problems.

Public Participation

Implementing the articles in the Basic Law has proved problematic, partly owing to vagueness in the law. The law fails to specify what public participation means or how it is to be implemented. The introduction of public participation provisions in recent sectoral laws represents a positive trend. However, with the exception of the Law on Measures for Sanitary-Epidemiological Welfare of the Population, the laws have lacked enforcement mechanisms.

Tourism

Several provisions of the LUT are overly complex and awkward, such as the definition of tourist and excursion activity. If revisions are contemplated, legal drafters may want to refer to model language developed by the World Tourism Organization. Adopting international definitions will facilitate statistical comparisons and should prove simple for all parties to understand. In this regard, collecting statistical information for demand analysis now proves a daunting task.

Since the LUT is fairly recent, it is problematic to say how it will operate and where legal deficiencies may arise in regulating this developing field of the economy. Moreover, implementing

the LUT effectively could prove problematic due to vagueness in several articles -- especially the financial provisions in article 11. Also, many items in the long list of major policy directions could require special implementing legislation.

Additional legal research is suggested to determine where legal drafting may be necessary to cure problems of vagueness in the LUT or to prepare separate pieces of implementing legislation. The LUT needs to be read in conjunction with the plethora of other laws that impact on tourism to determine if they can help implement the LUT. Also, this research needs to determine if conflict of laws exist between the LUT and other legislation. In particular, additional research is necessary in regards the process and procedures for issuing licenses. The LUT needs further scrutiny to see what provisions are made in the law or could be made to delegate decision-making authority to regional and local administrations in the Carpathian region.

A need exists to publicize tourism activities in the Carpathians. Problems arise, however, when governmental entities attempt this activity. The revenue they collect is often not used effectively to promote tourism. Moreover, in light of the plethora of taxes that businesses face, more taxes should not be imposed. As an alternative, tourism associations could conduct advertising activities with money raised from voluntary contributions of the associations' members. This proposal has the disadvantage of the free rider issue, where many enterprises would benefit from the advertising activity, but some may not join an association and contribute to this effort. Nevertheless, this is the preferred option.

Taxation

Excessive taxation and the instability of the tax regime have retarded new enterprise start-ups and prompted existing enterprises to conceal their income. Many enterprises now operate in an informal economy. Entrepreneurs complain loudly about the VAT, which has been applied like a sales tax on manufacturers and wholesalers. Extending the list of exemptions from indirect taxes and manipulating the tax rates has decreased the efficiency of the tax system. Such incessant changes in the tax law cause enormous problems in forecasting revenues and profits. Moreover, despite the existence of numerous tax exemptions, the law does not appear to provide any special tax relief to support the development of environmentally-friendly businesses.

Determining current tax law proves problematic. Moreover, making medium- to long-term business decisions is very difficult. Consistency and predictability are critical factors for a stable business climate. The situation is further worsened by the tendency of regional and local authorities to interpret the law arbitrarily.

For the most part, the Central Government has not been enthusiastic about the CEEZ proposal. Regional and local governments are the driving force behind the proposal. Authorities in the Carpathian region believe that CEEZ would facilitate Ukraine's integration with neighboring Western countries.

Investment

The ten percent threshold for foreign investment is lower than the previous requirement of twenty percent. Furthermore the previous foreign investment law required at least $50,000 in kind or $500,000 in cash capitalization. The reduction in the percent of foreign investment and the elimination of the capitalization requirement should encourage foreign investment. The new

investment law, however, does not provide for tax holidays as did previous laws. Nevertheless, Ukrainian entrepreneurs will still find foreign partners attractive because of their access to capital and imported equipment.

The right to seek damages from state organs will probably prove very difficult to enforce, but it does represent a noteworthy attempt to provide redress against problems such as bribery, bureaucracy and/or general complacency.

Privatization

The six sub-groups for enterprises to be privatized made the privatization process very tedious, as directors had to first formally apply for the category most appropriate to them, while at the same time, many firms could be considered for more than one category. The excessive subgrouping led to confusion, and proved a serious impediment. Many directors could point to the complexity of the system as an excuse for their lack of progress in the privatization process.

The failure to follow through with land privatization and codify into law the principles of private property represent the major roadblocks to privatization efforts. Additional problems include the lack of an automatic sequence of privatization with fixed timetable and the variety of privatization methods. Nevertheless, the legal framework for privatization, while flawed, is adequate. The slow pace of privatization up to the summer of 1995 reflects more of a political problem than legal problem. In this regard, the executive branch of the government has been far more supportive of privatization than the legislative branch. One interesting development, however, is that despite the slow and inconsistent pace of privatization of state-owned enterprises, the non-state sector of the economy has consistently grown. Matters of environmental protection are essentially excluded from the privatization process; these issues require additional regulatory action.

Stocks and Securities

Securities legislation is still incomplete. Clear guidelines do not exist as to what constitutes title to ownership and what constitutes a change of ownership. Moreover, numerous conflict of law issues arise in sorting-out contradictions in the laws and determining the applicable governing provision. Resolving these issues would facilitate privatization. In this regard, the introduction of tradable savings compensation certificates represents a positive development. These certificates should expand significantly the emerging capital market, since these certificates will be permitted for use in the mass privatization certificate auction process.

Bankruptcy

Ukraine has a bankruptcy law, but it has not proved effective. The Parliament may pass a new law, but it will likely have many of the defects of the existing law. When an enterprise is privatized, the privatized entity must assume the debt of the former government enterprise. Employees of a enterprise are priority creditors, and tax authorities are next in line. However, the claims of a mortgage holder are superimposed over all other creditors. A provision does exist in the law that could be interpreted to provide for the creditors to agree to a debt reduction. Problems arise, however, in convincing a judge to accept such a work-out plan.

Recommendations

Legal issues should not drive economic development projects. Rather the legal component needs to respond to the demands of various development opportunities. This summary focuses on national law. Additional research is needed to determine what laws and subsidiary regulations may apply at the oblast level. However, correcting many legal deficiencies will require long-term legal reform initiatives at the national level. But work on a broad range of legal issues at the national level far exceeds the scope and resources of the current EPAT project. Consequently, several of the suggestions herein focus on short-term initiatives that could be undertaken at the oblast level.

With regard to commercial laws, a challenge in the future will be to ensure the coordination of the various laws. A bottleneck in one area of the law, for instance securities law, can retard the development of a market economy -- even if the other commercial laws are well crafted and in place.

Comply with the Law

Activities selected for development by Ukrainians should not reinforce the unfortunate trend in Ukraine to operate independent of or in violation of law, even if the activity produces positive environmental and commercial results. However, in light of the strict standards that apply in many laws, following the rule of law may prove problematic. Thus, several legal mechanisms may exist that would, in effect, allow for a waiver of the unrealistic strict standards particular laws prescribe.

Additional research is necessary to determine whether Ukrainian law allows for legal experiments. Such legal mechanisms, found in some CIS countries, would allow for a waiver of existing laws in order to experiment with innovative legal tools. Ukraine could thus experiment with new approaches to managing a regulatory regime pursuant to the rule of law. This could prove a more expedient route than trying to revise national legislation from the outset. The opportune time to propose revising national legislation will be after the legal experiment has been field tested.

Incorporating a compliance schedule into a permit for existing facilities is one example of an innovative legal tool used to gradually achieve compliance with the law. A compliance schedule will specify interim milestones -- such as installation of a treatment plant or pollution control equipment or adoption of other environmentally protective measures within a certain time period. Interim milestones will enable the authorities, or perhaps private citizens, to enforce against a person behind in the schedule before the final compliance deadline.

Adopt Comparative Law Problem Solving Approach

Ukraine could benefit from taking a comparative approach in studying how other countries have addressed similar problems with legal reform initiatives. The experiences of the US and Western Europe may prove useful; however, the experiences of other Central and Eastern European (CEE) countries may prove more relevant. In particular, the experiences of the neighboring Carpathian countries of Poland, Hungary, Romania and Slovakia should be examined. In light of Ukraine's desire to be seen as part of Europe, political reasons argue for Ukraine to adopt laws consistent with the European Union or other CEE countries.

Biodiversity

If the ministries are unable to resolve jurisdictional conflicts, they should work to establish a consultative process which would be spelled out in a memorandum of understanding (MOU). Actually, the need exists to establish cooperative relationships between various ministries at the national level and between the national, oblast and local governments in many other environmental and commercial areas. MOUs could prove a useful tool to facilitate such relationships.

Any activities undertaken in a protected area will have to comply with The Law on Natural Territories and Protected Areas. This will require an assessment of ecological impacts. Moreover, if the protected area is expanded, the law mandates consultation with local authorities on any proposed expansion. Another noteworthy feature of this law is that it provides for public organizations to participate in management of the sites and territories of the national heritage fund to protect them or to participate in research. Consequently, the possibility arises of NGO/private sector partnerships.

Water

There needs to be more legal research to determine if recent regulatory enactments increased or lowered water standards. Rather than tightening standards, government authorities may want to consider a practical approach of adopting realistic standards more in line with EC standards or model standards proposed by the World Health Organization. Whatever the standards adopted, regulatory enactments should have a long transition period to reflect the financial resources available.

Air

The 20 minute standard for measuring exposures is too short a period, except in rare situations where extremely high levels exist or a pollutant is particularly harmful. If a short time period is used, a 24 hour period proves more realistic.

Authorities could consider reexamining the current ambient air quality norms with an eye toward establishing standards which more closely reflect public health needs and are more realistic. This would entail developing a unified and simplified system of standards with far fewer standards for pollutants. In this regard, technology-and performance-based standards would prove optimum. New emission targets should be based on "best practical" technology rather than "best available" technology.

Waste Management

When formulating a new classification scheme for toxic wastes and/or trying to identify toxic wastes, attention should be given to identifying those wastes that are truly harmful to human health. There needs to be additional legal research to determine what provision the laws make for the following low-cost, passive sanitary measures at landfills: preparing and lining areas to prevent seepage, compacting of dump surfaces, separating and reprocessing wastes, water diversion on and around the waste dumps, fencing off the landfills, and monitoring of ground water around the disposal facilities. There is an urgent need for regulations that deal with responsibility for future environmental losses which result from the accumulation of waste products.

Ecological Expertise

Government officials at every level will need to analyze and predict the environmental, social and economic impacts of development proposals that are of significant size and scale. If the Carpathian Region proves successful in promoting itself as an important tourist destination, local and oblast officials will face a number of development proposals for which ecological expertise will be needed, if intelligent decisions are to be made about issuing permits or about any special conditions governing the implementation of a project.

Economic Instruments

Economic instruments need reexamining to determine how they could be made more effective during this transition period. Such tools should stimulate environmental protection activities and, at the same time, not present severe barriers to economic development. For instance, a consistent and predictable system of economic instruments with up to a twenty year phase-in period for standards, during which fines would be imposed gradually affords one option. Polluting enterprises would be responsible for an increasing percentage of the fines in each subsequent year. In unique situations, such as fundamental or particularly sensitive industries, the fine payments could be forgiven for a specific term after which they would be fully responsible for payment of fines from revenue.

The "paid-from-profit" fine system should be replaced with a "paid-from-assets" regime which would eliminate free polluting rights for unprofitable enterprises and remove the incentive for borderline enterprises to minimize profits.

Legal research would help determine what the legal problems were that prompted the authorities to abandon the economic experiment in Lviv. Lessons can be learned from this economic experiment, so as to avoid similar problems. A point to consider is that this experiment probably entailed taxing the enterprises. For purposes of developing business, a tax credit or exemption can be suggested. However, revenue starved governments may prove reluctant to provide such tax benefits.

Public Participation

All the stakeholders (representatives from national, oblast and local governments; the private sector and NGOs) need to have input into any legal reform initiative so as to assure that any legal recommendations reflect reality. This will help avoid the goal oriented, almost academic, approach law-making has traditionally entailed. Moreover, implementation, oversight and review responsibilities are functions best performed at the oblast and local levels.

Stakeholders will be more likely to comply with the laws if they have input, and thus buy-in to the new law. Moreover, conducting the project in an open manner will give credibility to the process and afford fewer opportunities for corruption. Finally, a participatory process can serve as a building block for more long-term consultation networks, whether formal or informal, in the legal system.

An initial legal reform issue would be for the MEPNS to determine if it has the authority to promulgate subsidiary regulations so as to implement the public participation provisions in various laws.

Taxation

An issue to resolve is whether local and regional governments have the authority to negotiate special tax arrangements which would encourage environmentally friendly business investments. If so, through contractual arrangements with governmental authorities, investors could attempt to negotiate benefits where the law is vague.

Investment

As privatization proceeds and more private companies become available, foreign investors will find increased opportunities to enter the market. As discussed, foreign investors have several methods to purchase an enterprise, depending on what stage in the privatization process the enterprise is in. The most attractive method may be to invest after an enterprise completes its privatization. At this stage, the negotiations are not with the State Property Fund or any other governmental body, but with the new private shareholders of the enterprise. Newly privatized companies will find foreign capital more attractive than bank debt at high interest rates. Moreover, many people who acquired shares by use of their freely granted certificates may want cash as soon as possible. The difficulty with this option is the lack of efficient secondary trading mechanisms.

Privatization

Ukraine's privatization plan bears some similarity to the Czech voucher plan. Czech experts could provide technical assistance as to lessons learned from the Czech plan to the certificate auction centers in the Carpathian region. These centers are supposed to provide information to citizens on how to best utilize their privatization certificates, which enterprises are being privatized, receive stock applications from citizens and financial middlemen, register ownership rights of each shareholder, and provide consulting about all aspects of the privatization process.

INTERNATIONAL COOPERATION

Implications for Environmentally Sound Small Business Development

International cooperation is essential for the sustainable development of the Carpathian region of Ukraine. The western Carpathian oblasts that are situated at Ukraine's borders with Poland, Hungary, Slovakia and Romania share a common resource that must be conserved, remediated, and developed carefully to preserve its unique environmental qualities. Many of the problems faced by these Ukrainian oblasts are the same problems faced by their counterparts across the border. Joint action in many cases is not only the most efficient approach to resolve these issues, but, in fact, may be the only way to manage certain environmental problems that know no boundary.

International agreements can provide the vehicle for such cooperative activities. They can open the Ukrainian Carpathian region to programs, strategies and investment possibilities that Ukraine alone could not undertake in the broad spectrum of issue areas that must be addressed to embark on sustainable development projects. Some of the groundwork for such cooperation is already in place, but its usefulness has yet to be tested because it is so new. Many models from other regions in Europe and elsewhere can offer important lessons learned to the Carpathian region on how to best organize itself to work in a coordinated fashion.

At the same time, international agreements, while promoting certain clearly important objectives including harmonization of environmental and cross-border standards, can impose short-term constraints on rapid economic development. Compliance with these agreements, while managing regional problems, may not serve Ukraine's close in requirements for economic growth. At the same time, most international environmental agreements to which Ukraine is a party incorporate the concept of sustainable development and understand the needs and motivation for economic growth. The creative mechanisms that these agreements often identify to soften the blow of satisfying environmental concerns, including international donor funding and innovative incentive programs, need to be developed to fit the Ukrainian context, so that environmental and developmental goals can be achieved simultaneously.

Recommendations

Successful regional cooperation elsewhere in Europe can serve as a model for Ukraine and its Carpathian neighbors to develop the area economically, especially in the tourism sector. For example, the following types of activities have been implemented effectively in other Euroregions:

- Development of a joint tourism promotion board
- Joint promotion of specialty tourism (spa, rural and eco-tourism)
- Development of joint regional tourist maps
- Holding of tourism trade fairs and regional tours for journalists
- Elimination of long waits at border crossings
- Development of improved transport and rail access to regional airports
- Exchange of information between major travel agencies
- Development of joint Management Training Center for tourism industry
- Development of link between regional Chambers of Commerce
- Data collection of regional economic indicators for potential investors
- Encourage participation of regional NGOs and corporations along with local administration in regional decision making
- Exploration of the European Union's INTERREG (interregional) fund, as well as EBRD and PHARE programs to finance joint development projects
- Development of regional free trade agreements that reduce or eliminate trade barriers

How can existing and future international cooperation be used to Ukraine's advantage to develop eco-efficient businesses in the Carpathians?

- Increase participation of local governments and administrations in the transborder cooperative activities.
- Increase participation of the private sector in transborder cooperative programs to initiate such activities as joint business ventures, regional tourism opportunities, and regional foreign investment advisory boards.

How can the constraints imposed by complying with international agreements be made less onerous to Ukraine and, in fact, be used to Ukraine's advantage?

- Develop meaningful and enforceable incentives for government and the private sector to comply effectively with implementing regulations
- Involve all stakeholders in negotiating these regulations and incentives

- Transfer the needed technology to enable decentralization of monitoring and enforcement of the implementing regulations
- Acknowledge regional differences by developing differential standards for each geographic area that are achievable
- Actively seek international donor support to achieve standards
- Identify and learn from models of compliance in other countries and regions.

7. CONCLUSION

This Needs Assessment Report has examined in depth the major situational factors which together constitute the climate for environmentally sound economic development in the Carpathian region. Some of these factors can facilitate business development activities and others can constrain them. Through the analyses in this report, the EPAT project team, Ukrainian experts, and the local, regional and national participants in project-sponsored workshops will have the basic information required to identify and evaluate opportunities and ideas that will be incorporated in the Action Plan to be developed by the project.

Overall, the assessment demonstrates clearly that the Carpathian region is in command of extensive structural and human resources that can be mobilized in an economic initiative. Skilled and unskilled labor, valuable environmental assets, a legal framework, a large base of international cooperative agreements, as well as tourism and business infrastructure are available. While many of these resources need to be upgraded, modernized and standardized, they can offer a solid basis for initial business development activities. In addition, the report affirms that there are many innovative plans, strategies and ideas that Ukrainians have already considered that can help to begin the process of environmentally sound business development in the Carpathian region.

At the same time, several themes reoccur that highlight some of the broad requirements for next steps in this development effort.

- Ukrainians need to engineer a more favorable climate in which their resources and ideas can be combined with investments and business know-how to encourage environmentally sound business development. Such an enhanced business climate would involve further development of the legal system and government policies in the privatization, industrial, environmental, trade and taxation areas, for example, and better use of international cooperation opportunities.

- While the current economic crisis is likely to motivate a rush to rapid economic development, Ukrainians need to maintain their concern with preserving and repairing the environment as they build businesses. Environmentally sound approaches to developing new or existing businesses are available and can be more profitable in the long term.

- There is a critical need to build human capacity in the planning, management and operation of businesses. Training in demand analysis, management practices in service industries, and marketing and promotion must be an essential element of any program to develop businesses.

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SUMMARY OF EPAT WORKSHOPS

REPORT ON EPAT UKRAINE ACTIVITIES
JUNE 1996

OBJECTIVES of JUNE ACTIVITIES

1. To conduct focus group sessions in Rahkiv and Ivano-Frankivsk oblast in order to identify environmentally sound business opportunities in the sectors of tourism, wood products, energy, and agricultural production.

2. To conduct one regional and one national stakeholder workshop to assess policy constraints and solutions in the context of business opportunities identified in Rahkiv, Ivano-Frankivsk oblast, and the remainder of the Carpathian region.

TEAM COMPOSITION

To achieve the stated objectives, EPAT assembled a team of business development experts who supplemented the core team:

Paul Ferraro, environmental specialist
Rodney Fink, agribusiness specialist
Ashley Goldhor-Wilcock, tourism specialist
Thomas Gray, small business specialist
Annette Pagan, wood products specialist
Andrei Verlan, energy specialist

This business development team accompanied us to the region and proved to be instrumental in helping our Ukrainian stakeholders in the assessment of viable business opportunities.

In addition, we were supported by two professional Ukrainian facilitators who conducted the sessions and workshop in the Carpathian region, and by a team of simultaneous interpreters.

ACTIVITIES

1. Rahkiv and Ivano-Frankivsk Focus Group Sessions (12-13 June, Rahkiv; 19-20 June, Yaremcha)

Methodology and Approach

Our objective for the Rahkiv and Ivano-Frankivsk (I-F) focus groups was to learn about the business development priorities of the represented rayons in the focused sectors. In Rahkiv, we covered only the Rahkiv rayon; in Ivano Frankivsk, we included the rayons of Verhovina, Kolymia, Kosiv, and Ivano Frankivsk. We kept the groups small (15-30 participants) and representative of the private as well as public sectors. EPAT experts were part of the process only for purposes of lending their expertise and advice

to the Ukrainians. Expert presentations were limited and focused, with most of the interaction and dialogue occurring among the Ukrainians.

Break-out groups were used in order to facilitate dialogue among all participants. The groups were divided by sector and were instructed to identify ideas for business development. The ideas were then ranked through a crude statistical exercise conducted in plenary. More comprehensive break-out sessions were then conducted for each sector in order to identify the actions, constraints, and opportunities associated with each high-priority business opportunity. For example, participants were asked to discuss resources required, existing demand and competition, marketing and promotion, environmental implications, and policy considerations.

The EPAT experts in wood processing, tourism, energy, and agribusiness concentrated their contribution on collecting information related to their sectors, providing expertise in the sessions related to their sectors, suggesting new business ideas, and commenting on proposed business ideas. The small business development specialist, Thomas Gray, and the environmental specialist, Paul Ferraro, collected information and provided expertise across all sectors. The energy expert also applied his knowledge to improving the energy efficiency of existing businesses and new business ideas in all sectors.

Presented below are brief summaries of the findings of the focus group sessions by the EPAT team members. Detailed analysis of these findings will be included in the Action Plan and are presented in their attached individual reports.

Summary of Business Ideas
In both Rahkiv and Ivano-Frankivsk the EPAT team spent two days prior to the beginning of each focus group traveling through the rayons meeting with entrepreneurs, government representatives, and other stakeholders. We visited wood processing facilities, the Carpathian Biosphere Reserve, the Carpathian National Park, a sanitorium, crafts operators, farmers, forestry officials, parks and protected area officials, directors of associations, hotel operators, and others.

The business development opportunities identified by the focus group participants and supplemented by EPAT experts included:

<u>Tourism</u>
- wool blanket manufacturing (links to agribusiness)
- bee farming (links to agribusiness)
- farm tourism/beds and breakfasts (links to agribusiness)
- tourism association
- Carpathian Biosphere Reserve nature tourism activities
- Drahabrat skiing
- hotel operations
- mineral water spas and sanitoriums
- Eco-business center
- Carpathian National Park nature tourism activities

General Comments: For the promotion of small-scale tourism-related businesses generally, several problems/constraints should be addressed: current tax policies act as a disincentive for small business development; registering a new business and obtaining tax and license numbers is a daunting task; legislative reform is needed in the area of private property rights; protection from the Mafia is essential; cultivation of a positive national image is necessary in order to develop international markets; training is required for the service sector to upgrade hotels and related facilities; information on regional attractions needs to be published and disseminated; and infrastructure must be improved (roads, transport facilities, and signage). Environmentally, many proposed tourism activities appear to have little direct negative impact (exceptions include, e.g., increased waste production). However, developers should be aware of indirect negative impacts from the increased development of infrastructure and increased demand for the input of resources (e.g., wood for more fuel and heat and the effects of increased wool production on pastures). Also, developers should pay attention to the question of scale, i.e., the cumulative environmental effect of multiple development as opposed to individual development.

Wood Processing

- reforestation
- manufacturing of pressed logs
- various consumer wood products
- construction materials

General Comments: For reforestation opportunities, legislation allowing public lands to be used for private purposes should be enacted; working capital/investors will be required; energy costs could be high; employee training required; environmentally, promotes sustainability but a potential negative impact could result from increased demand for seedlings. For pressed logs, equipment and technologies required can be expensive; competition from forest (wood is used for heating) could be a problem; environmental implications could be positive (e.g., replacing environmentally damaging energy production methods) but could also be negative (e.g., use of polymers in the production of the logs or replacement of cleaner energy production methods). For consumer wood products, technologies can be expensive, training is required; state ownership of materials is a problem; laws governing use of forestry must be clarified (obtaining permits, etc.). In general, potential negative environmental impacts from wood processing operations would need to be addressed by sound forestry management plans.

Energy

- small power station
- manufacturing of briquettes from wood processing residues for heating
- small energy station using bark and sawdust
- consulting firm specializing in energy efficiency
- hydropower, wind, solar

General Comments: Overall, the most promising idea for development of energy-related businesses is the creation of a small consulting firm specializing in energy efficiency because capital resources are minimal, especially if the firm begins as

a non-profit entity in order to avoid steep taxation, environmental impacts are positive, and potential energy savings are significant. A less promising option, but still feasible, is the small energy station using sawdust because sawdust is plentiful, direct environmental impacts are minimal and potentially positive, production of the energy is inexpensive, and the waste has a high energy content. However, issues which would need to be considered more carefully include indirect environmental impacts (increasing the incentive for producing more waste/cutting more trees), laws and other constraints related to licensing and privatization, the question of whether an existing free resource would take on monetary value and thus become more expensive, and the potential conflicts of interest related to state-owned verse privately-owned operations. Manufacturing of briquettes is not necessarily considered a feasible option because of reasons discussed in wood products section above. More information must be collected to fully evaluate the feasibility of solar and wind-generating energy, but technologies at present are not readily accessible. Small-scale hydropower has good potential for the region, although care must be taken to avoid negative environmental impacts on aquatic systems.

Agribusiness

- mushroom production
- berry and fruit processing
- sheep milk cheese
- value-added processing to potatoes, vegetables, grains, sunflowers, cattle, etc.
- bee keeping
- medicinal plants and herbs
- horse breeding

General Comments: For Rahkiv region, production of forestry products presents best opportunities because the rayon's resources are based mostly in timber. In the context of tourism, marketing of specialized agricultural products could be developed, such as mushrooms, berries, juices, wool products, honey, etc. Good potential in agribusinesses related to the processing of products, adding value to the materials. For Ivano-Frankivsk oblast, agriculture is primarily at the level of self-sufficiency, with only small opportunities for business development unless quality and distribution channels are improved. Environmentally, harvesting of forest products can have direct positive and negative impacts. Potential negative impacts include over-harvesting; potential positive impacts include increasing the value of the forest and thus creating economic incentives for protection of its resources. For sheep milk production, the only potential negative environmental impact results from increased grazing and thus destruction of pastures, an effect which could be mitigated with appropriate standards and monitoring. A potential negative environmental impact from increased agricultural production/packaging could be the production of organic waste, an effect which could be mitigated by turning it into fertilizer or using it to produce energy for the processing plants.

2. Regional Stakeholder Workshop (25-26 June, Yaremcha)

Methodology and Approach

The objective of this workshop, which included approximately 50 stakeholders from the regional level and a few from the national level, was to present findings from the focus groups and the research on tourism, identify new business ideas in tourism, and discuss policy considerations related to environmentally sound business development in the Carpathian region.

EPAT experts provided limited presentations on the project's findings to date and obtained the assistance of participants in the ranking of high potential zones for environmentally sound tourism. A full day of break-out group discussions followed which focused on identifying specific recommendations for action at the local, regional, and national level required for implementation of the business ideas. Stakeholders were divided into groups corresponding to the following issues: legal and financial, institutional capacity building and infrastructure, marketing and promotion, and environmental impacts. Participants in each break-out group discussed the implications of these issues in the context of implementing agents, timeframe, resources required, costs, and financing mechanisms.

Findings from the stakeholder workshop will be incorporated into the Action Plan by assisting the process of formulating policy recommendations.

Summary of Findings
Ukrainian stakeholders reported in general that the climate for business development includes many constraints and few opportunities. Available opportunities identified by stakeholders include abundant natural resources, untainted physical environment, proximity to Europe, a well-educated and plentiful human resource base, the existence of some useful laws and regulations (e.g., tourism and protected areas). Many constraints were addressed. For legal and financial issues, attention was focused on taxation, licensing, privatization, and investment. Institutional capacity and infrastructure issues included the need for management and lower-level training in order to bolster the service sector; stronger agencies for support of business development; needs for better roads, communication systems, airline services, railways, signage, etc. Issues discussed in the marketing and promotion group included the need for more information to be available for the promotion of tourism and other businesses (brochures, catalogues, etc.); the need for better statistics; a better understanding of advertising and assessment of supply-demand issues, etc. The group on environmental impacts discussed the need to engage more members of the community in the protection of natural resources by creating mechanisms for better distribution of the benefits of environmentally sound tourism; ideas were presented for better regulations, more environmental education and ecological monitoring, and the creation of professional organizations.

3. Kiev Stakeholder Roundtable (2 July, Kiev)

Methodology and Approach
The objective of the roundtable was to address national policy issues related to the development of the Carpathian Environmentally Sound Tourism and Business Action Plan. Participants included national-level stakeholders from the private and public sectors, as well as two representatives from the Institute of Regional Studies in Lviv.

EPAT's work group co-coordinators facilitated this workshop. They are:

Gennadiy Naumenko, Chairman of the State Committee of Tourism
Vyacheslav Oleshchenko, Presidential Administration
Leonid Rudenko, Institute of Geography, Academy of Sciences

The co-coordinators led discussions among the stakeholder participants in the following substantive areas: legal and financial, marketing and promotion, environmental considerations, institutional capacity and training, and infrastructure. Discussions were initiated with the presentation of questions that the EPAT team and its co-coordinators determined to be relevant to the development of policy recommendations for the Action Plan. Issues for discussion are attached to this report as part of the roundtable agenda.

Summary of Findings

Participants and co-coordinators identified several issues of importance and proposed solutions for the Action Plan. Ideas included policy reform in the areas of taxation (incentives and targeting tax revenues), foreign investment, bankruptcy, and credit. In order to successfully promote the natural resources and other assets of the Carpathian region, stakeholders expressed a need for more and better organized information at the national level, including statistics to help assess demand, directories of endangered species and other biodiversity, and catalogues on tourism sites and facilities. It was noted that such directories and catalogues already exist and suggested that marketing and translation of existing publications would be a good start. Participants from Lviv noted that a regional tourism plan had been drafted and submitted for national approval and suggested that this plan should serve as a foundation for the implementation of a nationally-based tourism strategy for Ukraine. The creation of economic linkages and partnerships between the public and private sector in order to facilitate economic development was identified as a high priority. In the context of environmental implications of development, stakeholders identified the need for a national policy on sustainable development and discussed the desirability of more standardized guidelines on carrying capacity in national protected areas. Environmental education and community-based organization were also recognized as priorities for the protection of the Carpathian region's natural resources. Privatization of the tourism industry, according to one stakeholder, would help to develop stronger incentives for ecological protection. In the area of infrastructure, stakeholders agreed that the Carpathian region cannot support tourism or other development on an international scale without improved access and services. Ideas discussed included upgrading the network of railways, improving roads, regulating waste, improving water distribution systems, and addressing problems of crime.

AGENDA

RAYON FOCUS GROUP WORKSHOP
Rakhiv, Zakarpatska, Ukraine
June 12-13, 1996

Conducted by: Environmental and Natural Resources Policy and Training Project (EPAT)
Sponsored by: The Government of Ukraine and the United States Agency for International Development (USAID)

OBJECTIVES

1. To brainstorm and generate environmentally sound business development ideas for the rayon in the agriculture, forestry, energy conservation/efficiency, and tourism sectors.

2. To compare, evaluate and rank order these ideas based upon their likely economic feasibility and environmental impact.

3. To examine the best opportunities in detail.

Wednesday, June 12

9-9:20 am	**Objectives of the Workshop** Describe the overall project (Goodkind) Explain the goals, expected results, and outputs of the focus group (Spector) Explain how the results will be used (Spector) Explain the agenda and procedures to be used (Tikhii)
9:20-10:20 am	**Introduction of Participants and EPAT Team Members (Tikhii)** Introductions Team-building exercise
10:20-11:00 am	**Define Eco-Efficient Businesses (Ferraro)**
11:00-11:20 am	**Break**
11:20 am -1:00 pm	**Generate Eco-Efficient Business Ideas for the Rayon (Tikhii)** Identify a range of new and current business opportunities for the rayon in the agriculture, forestry and wood products, tourism, and energy conservation and efficiency fields. Consider the possible businesses, possible implementors, resources needed, the likely demand for the products and services, possible competition, the regulatory conditions, and the likely consequences for society.
1:00-2:00 pm	**Lunch**
2:00-3:00 pm	**Continuation of "Business Ideas" Session**
3:00 - 3:15 pm	**Break**
3:15-5:00 pm	**Expert Discussion and Roundtable (Tikhii)** Issues, questions and reactions in each business sector

Thursday, June 13

9:00-10:30 am	**Compare and Evaluate Business Development Ideas** Present evaluation criteria (Ferraro and Spector) Evaluate and rank order a shorter list of "the best" opportunities (Tikhii)
10:30-11:00 am	**Break**
11:00 am -1:00 pm	**Develop "Best" Business Development Ideas in More Detail (Tikhii)** For each of the "best opportunities," detail the following areas: 1. The Products and Services 2. Possible Implementors and Proponents -- Who might be interested in pursuing this business (specific individuals or groups)? 3. Resources Needed -- What financial, capital and human resources are needed to start or extend the business? 4. Likely Demand -- Who will buy the products and services and how many? 5. Possible Competition -- Who are the competitors? Why will buyers purchase from this business? 6. The Situation -- What are the economic conditions and government regulations that will affect the business? 7. Societal Consequences -- What is the likely impact of the business on the community, the economy and the environment?
1:00 - 2:00 pm	**Lunch**
2:00 - 3:00 pm	**Continuation of "Best Business" Session**
3:00 - 3:15 pm	**Break**
3:15 - 4:30 pm	**The Future Scenario (Tikhii)** Possible impacts of business activities in the short-, medium-, and long-term
4:30 - 5:00 pm	**Conclusions**

RAHIV FOCUS GROUP WORKSHOP
Rahiv, 12-13 June, 1996
List of participants

Name	Organization	Position	Adress	Tel/Fax
Daskaluk Myhaylo	District Executive Authority	Head	1, Miru str. Rahiv	2-12-31 2-15-34
Zakureniy Volodymyr	District Executive Authority	Deputy Head	-"-	2-15-34
Homa Vasyl	District Executive Authority	Assistant to Head	-"-	2-12-62
Hamor Fedir	Carpathian Biosphere Reserve	Director, eco-tourism	77, Krasne Pleso str. Rahiv, Zakarpatje, 295800	2-21-93 2-26-59
Mahanetc Ivan	Carpathian Biosphere Reserve	Deputy Director, Eco-tourism	-"-	2-21-93 2-27-57
Danch Yosip	District organisation of farmers	Head, Meat production, fish breeding	10, Zavods'ka str., Rahiv Zakarpatje, 295800	2-19-25
Kebus Igor	"Girsca", Stock Ecological Company	Head, Milk and milk products processing	Yasynya	3-43-80
Gudz Vasyl	Honey production	Entrepreneur	v. Verhne Vodyane	
Zelenko Vasyl	Milk processing	Entrepreneur	Cob.Polyana	2-15-57
Shimonyak Vasyl	Small Hydropower	Entrepreneur	Cob.Polyana	2-25-11
Legkiy Ostap	Stock company " Katod"	Head, Mineral water production	v.Kvasi	2-24-31
Mikor Yuriy	"Tisa"	Director, Tourism	1, Ivana Franca str., Rahiv	2-11-65
Meshko Ivan	District Executive Authority	Deputy Head, Agriculture	1, Miru str. Rahiv	2-11-33 2-21-54
Voloschuk Ivan	"Green Carpatian" magazin	Deputy Head	12/2, Miru str. Rahiv	2-14-31
Tulyk Myhailo	Rayon Sport School	Director	5, Ivana Franca str., Rahiv	2-32-91
Shimonyak Mykola	Stock Company "Kondensator"	Chief Engineer	141, Verbnik str., Rahiv	2-14-24
Kabal Yuri	Small enterprise "Kvasy"	Director wool processing	v. Kvasy	
Byntyshuk Myhaylo	Small enterprise "Sapphir"	Lumber processing, furniture production	Yasinya 12 Shevchenko St.	

AGENDA

RAYON FOCUS GROUP WORKSHOP
Yaremcha, Ivano-Frankivsk Oblast, Ukraine
June 19-20, 1996

Conducted by: Environmental and Natural Resources Policy and Training Project (EPAT)
Sponsored by: The Government of Ukraine and the United States Agency for International Development (USAID)

OBJECTIVES

1. To brainstorm and generate environmentally sound business development ideas for the rayon in the agriculture, forestry, energy conservation/efficiency, and tourism sectors.

2. To compare, evaluate and rank order these ideas based upon their likely economic feasibility and environmental impact.

3. To examine the best opportunities in detail.

Wednesday, June 19

9-9:20 am	**Objectives of the Workshop** Describe the overall project (Goodkind) Explain the goals, expected results, and outputs of the focus group (Spector) Explain how the results will be used (Spector) Explain the agenda and procedures to be used (Tikhii)
9:20-10:20 am	**Introduction of Participants and EPAT Team Members (Tikhii)** Introductions Team-building exercise
10:20-11:00 am	**Define Eco-Efficient Businesses (Ferraro)**
11:00-11:20 am	**Break**
11:20 am -1:00 pm	**Generate Eco-Efficient Business Ideas for the Rayon (Tikhii)** Identify a range of new and current business opportunities for the rayon in the agriculture, forestry and wood products, tourism, and energy conservation and efficiency fields. Consider the possible businesses, possible implementors, resources needed, the likely demand for the products and services, possible competition, the regulatory conditions, and the likely consequences for society.
1:00-2:00 pm	**Lunch**
2:00-3:00 pm	**Continuation of "Business Ideas" Session**
3:00 - 3:15 pm	**Break**
3:15-5:00 pm	**Expert Discussion and Roundtable (Tikhii)** Issues, questions and reactions in each business sector

Thursday, June 20

9:00-10:30 am	**Compare and Evaluate Business Development Ideas** Present evaluation criteria (Ferraro and Spector) Evaluate and rank order a shorter list of "the best" opportunities (Tikhii)
10:30-11:00 am	**Break**
11:00 am -1:00 pm	**Develop "Best" Business Development Ideas in More Detail (Tikhii)** For each of the "best opportunities," detail the following areas: 1. The Products and Services 2. Possible Implementors and Proponents -- Who might be interested in pursuing this business (specific individuals or groups)? 3. Resources Needed -- What financial, capital and human resources are needed to start or extend the business? 4. Likely Demand -- Who will buy the products and services and how many? 5. Possible Competition -- Who are the competitors? Why will buyers purchase from this business? 6. The Situation -- What are the economic conditions and government regulations that will affect the business? 7. Societal Consequences -- What is the likely impact of the business on the community, the economy and the environment?
1:00 - 2:00 pm	**Lunch**
2:00 - 3:00 pm	**Continuation of "Best Business" Session**
3:00 - 3:15 pm	**Break**
3:15 - 4:30 pm	**The Future Scenario (Tikhii)** Possible impacts of business activities in the short-, medium-, and long-term
4:30 - 5:00 pm	**Conclusions**

Ivano-Frankivsk Focus Group
Yaremche, 19 -20 June 1996

	Name	City	Business
1.	Petro Ponopulyak	Vervovyna	Administration
2.	Ivan Domansky	Verhovyna	Wood industry
3.	Igor Sinitovych	Verhovyna	Wood industry
4.	Yaroslav Lelet	Verhovyna	Wood industry
5.	Galyna Grayovetska	Kolomyya	Agribusiness
6.	Myhaylo Moroz	Kolomyya	Wood industry
7.	Bogdan Goloyad	Iv.-Fr.	Forestry/ environment
8.	Myroslava Rozdolska	Iv.-Fr.	Agribusiness
9.	Rostyslav Mykytyuk	Kalush	Tourism
10.	Yaroslav Matiychak	Kosiv	Administration
11.	Anastasiya Kostyuk	Kosiv	Environment/ agriculture
12.	Galyna Kishuk	Kosiv	Economy
13.	Mykola Rakevych	Kosiv	Wood industry
14.	Ganna Bogdan	Kosiv	Crafts
15.	Gordiychuk Oksana	Kosiv	Crafts
16.	Vasyl Dmytriv	Iv.-Fr.	Fertilizers production
17.	Jozef Burda	Verhovyna	Wood industry
18.	Vasyl Gudz	Kyiv	Funding/ investment
19.	Marta Goloyad	Iv.-Fr.	Business
20.	Vitaliy Andrusenko	Kosiv	Tourism

Business Ideas Generated at the Rakhiv and Yaremche Focus Group Sessions
June 12-13 and June 19-20, 1996

The following list of small private business opportunities represent the entire set of ideas generated at the Rakhiv and Yaremche focus group sessions by the Ukrainian participants. These ideas were elicited using facilitated brainstorming procedures. There is much consistency across these two lists, suggesting that local entrepreneurs in these different rayons are interested in pursuing many of the same types of business opportunities.

After these ideas were generated, the participants were asked to compare and evaluate them along four criteria so that a smaller list of high potential businesses could be derived. The criteria were developed to get the Ukrainian participants to assess each idea in very practical terms:

- **Customer Demand:** Are there many customers who want to buy the products or services?
- **Resource Requirements:** Are many resources required to establish this business?
- **Constraints:** Is the business constrained by government regulation or by infrastructure requirements?
- **Environmental Impact:** Will the business lead to a decrease in environmental quality?

Each participant rated each business idea quantitatively on each of these criteria on a scale from 1 to 3, where 1 is very much, 2 is some, and 3 is very little. (For reasons of calculating the results, participants were instructed to reverse the coding scale for the first criterion.) These four criteria were conceived of as mutually exclusive, so participant ratings were treated as additive functions. Thus, a participant could rate a business idea from 0 to 12. Mean ratings across all participants at the focus group were calculated and the top 10 to 12 ideas that rated highest, on average, were discussed in much greater depth by each focus group. (These ideas are marked below with an asterisk.) The results of those discussions yielded many of the opportunties discussed earlier in this Action Plan.

<u>Ideas Generated in the Yaremche Session</u>

<u>Tourism</u>

1. *Tourism business center (eco-business center) to promote and sell tourism activities and handicrafts
2. *Association of hotels
3. Association of environmental tourism
4. *Tourist advertising and publication business
5. Renovation of hotels along hiking trails
6. Restoration of observatory on Peip Ivan Mountain
7. Mineral water spa
8. *Tours of craft and artisan studios and factories
9. *Bed and Breakfast with planned excursions
10. *Farmer tourism

11. Horse tourism
12. Hunting tourism
13. Salmon breeding for sport
14. *Winter tourism
15. Manufacturing of tourist equipment

Agriculture
16. Collection and processing of wild herbs
17. Collection and processing of wild berries
18. *Cultivation of medicinal herbs
19. Greenhouses using organic waste for heating
20. Milk processing and cheese production
21. *Small enterprise for canning, freezing and storing fruits and vegetables
22. *Collecting, processing and selling bee products
23. Trout breeding
24. Horse breeding
25. Ostrich breeding
26. Slaughterhouse and processing of meats and skins
27. Production and processing of leather
28. Technical service station and leasing for farmers

Forestry/Wood Processing
29. Production of medicines and cosmetics from fir tree extracts
30. Wood processing facility for furniture and components
31. *Carpentry business based on existing sawmill facilities
32. Use of wood processing waste and sawdust to produce fuel logs
33. Production of wood chips from waste of cutting timber

Energy
34. Small hydropower station installation and maintenance
35. Small electricity and heat generating station using wood processing waste
36. *Company for energy efficiency consulting
37. Windmills

Ideas Generated in the Rakhiv Session

Tourism
1. Develop mineral water spas
2. Reconstruct existing hotels
3. Construct Olympic complex at Dragobrat
4. Develop recreational facilities
5. *Hotel association and tourist bureau
6. *Village tourism
7. Develop tourist complex at Biosphere Reserve
8. Develop association of nature/hiking guides
9. Develop training school for tourism

10. *Publish tourism information materials

Agriculture

11. *Bee breeding
12. *Fishery
13. *Milk and local sheep cheese processing
14. Wool and animal skins processing
15. Harvesting, processing and packing of medicinal plants
16. Alpine meadows maintenance
17. Elite seed production
18. Collection, processing and packing of mushrooms and berries
19. Meat processing
20. Horse and other animal breeding

Forestry/Wood Processing

21. Added value to wood
22. *Elite sapling reforestation
23. Hunting
24. *Processing of sawdust to develop alternatives to firewood
25. Processing of sawdust to produce fertilizers
26. *Manufacturing of consumer products

EPAT AGENDA
for
REGIONAL STAKEHOLDER WORKSHOP
YAREMCHA, UKRAINE
JUNE 24-26, 1996

Objectives

1. To assemble individuals, organizations, and government representatives from the Carpathian region and Kiev whom the CEAP could impact and who have an interest in the development of the CEAP or an interest in its outcomes.

2. To seek input for development of the CEAP from such individuals, organizations, and government representatives in response to the Needs Assessment data gathered and presented.

3. To develop the CEAP through a dynamic and interactive process involving the stakeholders.

***DAY ONE* (June 24)**

7-8:00pm

Reception

- Opening Remarks (Naumenko?)
- Opening and Welcome (Goodkind)

***DAY TWO* (June 25)**

7:30 Breakfast

9:00-9:20 am

Introduction and Objectives

- Explain the purpose and objectives of the stakeholder workshop and how the results will be used (Goodkind)
- Explain the agenda and procedures to be used (Tikhii)

9:30-10:00 am

Introduction of Participants and EPAT Team Members (Tikhii)

10:00-10:15 am

Attributes of Environmentally Sound Tourism-Related Business (Ferraro)

10:15-11:30 am

The Needs Assessment Report: Opportunities, Costs, and Barriers to Tourism Development (Spector and Bochniarz)

- Presentation of findings and implications for tourism-related business (30 minutes)
- Discussion led by EPAT Co-coordinators (45 minutes)

11:30-11:45 BREAK

11:45-1:00

Environmentally Sound Tourism (Pedersen)

- Presentation of findings: market surveys and field studies
- Verify high potential opportunities (generic and specific).

1:00-2:00 LUNCH

2:00-3:00

Tourism, cont.

3:00-3:15 BREAK

3:15-3:45

Tourism, cont.

- Presentation of findings related to tourism
- Discussion

3:45-5:30

Introduction to Carpathian Eco-Tourism/Ecoefficient Business Action Plan (Tikhii and Spector)

- Break-out groups for next day's session identified, instructions and explanation given, questions distributed and references noted. (45 minutes)

  Hand-Outs: CEAP outline
  Business Opportunity Ideas
  Criteria for Discussion
  Questions for Stakeholders

- Begin break-out groups: identify rapporteurs, review questions, prioritize questions (1 hour)

DAY THREE (June 26)

7:30 Breakfast

9:00-9:15

CEAP Discussion and Development (Tikhii and Spector)
Review in plenary CEAP instructions and answer questions.

9:15-1:00

CEAP Break-out groups. Stakeholders will develop actions for recommendations related to the following components of the CEAP, in the context of tourism-related business:

- Legal, Institutional, and Financial
  Facilitator: Oleshenko
  Expat: Gibson
- Institutional Capacity Building and Infrastructure
  Facilitator: Tikhii
  Expat: Bochniarz
- Marketing/Promotion
  Facilitator: Naomenko
  Expats: Pedersen, Spector
- Environmental Impacts
  Facilitator: Nasvit
  Expats: Ferraro, Goodkind, Volskaya-Winbourne

11:15-11:30 BREAK

1:00-2:00 LUNCH

2:00-2:45

Peparation of Presentations by Break-Out Groups

3:00-4:45

Report of Findings from Break-Out Groups, Cont.

4:45-5:00

Closing

Participants of the
Regional Stakeholder Workshop
Yaremche, 25-26 June 1996

N	Name	Occupation
1.	Genadiy Naumenko	State Committee for Tourism, Deputy Head
2.	Vyacheslav Oleshchenko	Presidential Administration, Law Department
3.	Leonid Rudenko	Institute of Geography, Director
4.	Svyatoslav Gutsal	UkrProfTour (Trade Unions), Vice-President
5.	Galyna Gudymenko	"Suputnyk - Ukraine" Tourist Company
6.	Anatoly Muntyan	Union of Sport and Tourist organizations; Rescue Service
7.	Mykola Stetsenko	Department of the National parks and reserves of MEPNS
8.	Oleksandr Oliynyk	Lviv oblast Administration
9.	Vasyl Zhovkva	Lviv city Administration
10.	Andriy Baganych	Zakarpatska oblast Administration
11.	Pavlo Pavli	Zakarpatska Oblast Administration
12.	Myhaylo Golovatyi	Ivano-Frankivsk oblast Administration
13.	Bogdan Goloyad	Ivano-Frankivsk oblast Forestry Administration
14.	Iosyp Poberezhnyk	Carpathian National Park
15.	Myron Lukashevych	Lviv oblast Agency of the SCT
16.	Mykola Gafiyak	Zakarpatske oblast cost-sharing company of "UkrProfTour"
17.	Vasyl Rusnak	"Interart", LTD, Uzhgorod
18.	Iosyp Mykolyash	Ivano-Frankivsk oblast Agency of the SCT
19.	Stepan Ivanishin	Ivano-Frankivsk oblast cost-sharing company of "UkrProfTour"
20.	Olga Astahova	"Stanex", LTD, Ivano-Frankivsk

21.	Nadiya Oliynyk	Tourist Agency "Nadiya", Ivano-Frankivsk
22.	Anatoliy Guzhuk	Chernivtsy oblast Agency of the SCT
23.	Anatoliy Fedorenko	Chernivtsy oblast cost-sharing company of "UkrProfTour"
24.	Vasyl Kyfiak	"Chernivtsy-Suputnyk", LTD
25.	Antonina Tolpygina	Chernivtsy oblast Association of international tourism "Bukovynaintour"
26.	Olga Savka	Commercial private firm "Around the world"
29.	Viktor Ogonochenko	Lviv oblast MEPNS Administration
30.	Vitaliy Korzhyk	National park "Vyzhnytskiy"
31.	Yuri Zinko	Lviv State University
32.	Olexandr Zavadovych	Lviv regional foundation "Znesinnya"
33.	Fedir Gamor	Carpathian Biosphere Reserve
34.	Vasyl Homa	Rahiv Rayon Administration
35.	Mykola Krachylo	Chernivtsy University
36.	Lidiya Milkina	Institute of the Ecology of the Carpathians
37.	Myron Kolodko	Ecological Club, Lviv
38.	Georgiy Sorokan	National park "Vyzhnytskiy"
39.	Stepan Pelehatyi	Lviv City Hall
40.	Myhaylo Kovach	Ivano-Frankivsk
41.	Lidiya Gotsal	Carpathian National Park, Yaremche
42.	Vasyl Kopach	Regional Park "Stuzhytsya"
43.	Yuri Pavli	Zakarpatska Oblast MEPNS Administration

The United States Agency for International Development/Ukraine
Environmental and Natural Resources Policy and Training Project, Washington, D.C.

ENVIRONMENTALLY SOUND TOURISM AND OTHER BUSINESS DEVELOPMENT

Kiev Stakeholder Roundtable
Conference Hall of the Presidium of the Academy of Sciences, Kiev
2 July, 1:20 p.m. - 5:30 p.m.

Objectives

To deliver issues raised at the EPAT focus groups and regional stakeholder workshop held in June in the Carpathian region to the national level;

To address national policy level issues related to the development of the Carpathain Environmentally Sound Tourism and Business Action Plan;

Agenda

1:20-1:40 INTRODUCTION TO PROJECT AND ACTION PLAN

1:40-5:20 DISCUSSION OF ISSUES RELATED TO ACTION PLAN

- 1:40-2:25 Legal, Economic, and Financial

BREAK

- 2:40-3:25 Marketing and Promotion
- 3:25-4:05 Environmental Considerations
- 4:05-4:40 Institutional Capacity and Training
- 4:40-5:20 Infrastructure

5:20-5:30 CLOSING REMARKS

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ROUNDTABLE
Kiev, 2 July 1996

ISSUES FOR DISCUSSION

Policy, legal and financial issues *1:40-2:25 pm*

- Could the license fee and the $1,000 deposit be reduces for small and medium size tourist facilities?
- Could the VAT be reduced for tourist facilities?
- Could the land tax exemption for sanitoriums be expanded to include tourist-related health facilities?
- How viable is the Ecological and Economic Free Zone for Rahiv rayon?

Break 2:25-2:40 pm

Marketing/Promotion *2:40-3:25*

- How will Ukraine develop a marketing strategy for domestic and international tourism that is based on customer demand analysis? How could this demand information be used to evaluate supply?
- What are the recommendedmechanisms for initiating a regional promotional campaign for tourim in the Carpathians?
- What are the recommended mechanisms to help small and medium-sized business in the Carpathians to develop contacts, distribute promotional materials, and identify clients?

Environmental Impacts *3:25-4:05*

- What can be done to encourage tourism and tourism related businesses to protect environment under tourism development?
- What actions can be taken to encourage development of citizens participation in the environmental protection as tourism increases?

As a way to encrease local participation in the benefits generated from tourism, would it be possible nd worthwhile to encourage state or union tourist enterprises to be privatized as open joint stock companies in which local residents would have the options to purchase a certain percentage of the shares.

Institutional Capacity and Training *4:05-4:40*

- What actions do you recommend to resolve management and service issues in tourism business under the transitional economy

Infrastructure *4:40-5:20*

- What are the national mechanism needed to coordinate regional infrastructure needs (communication, transportation, tourism facility, waste treatment facility, etc.) with tourism development strategy

SVW 7/9/96
workshop/rndissues

Environmentally Sound Tourism and Other Business Development
National Stakeholder Round Table
Kyiv, July 2, 1996

Participants

Gennadiy Naumenko - Deputy Chairman of the State Committee of Tourism
Mykola Oleksiyko - Department of Tourism of the Cabinet of Ministers
Marian Dolishnij - Institute of Regional Studies (c. Lviv)
Anatoliy Bachinski - Ministry of Finance
Zoya Solomeina - Commission of the Environmental Policy of the Parliament
Leonid Nechyporchuk - Association of the tourist organizations
Stanislav Romanenko - Ukrainian League of Industrialists and Entrepreneurs
Tetyana Ivanenko - State Committee of Sport and Youth
Vladislav Novikov - Ministry of Economy
Svyatoslav Gutsal - "UkrProfTour" (Trade Unions)
Viktor Zinchenko - "Sypytnyk-Ukraine" tourist company
Anatoliy Muntyan - Rescue Services and the Union of the Sport and Tourism Organizations
Mykola Stetsenko - Department of Nature reserves and National Parks of the Ministry of Environmental
Sergiy Popovych - Institute of Tourism
Vyacheslav Oleshchenko - Presidential Administration
Leonid Rudenko - Institute of Geography, Academy of Sciences
Leonid Kravtsiv - Institute of Regional Studies (c. L'viv)

Guests:

1. Ties van Kempen - EPT Project
2. Natalya Gordienko - UN Mission to Ukraine

APPENDIX D

BUSINESS PLANNING

As a society in transition, Ukraine has little experience with private sector development. Existing and promising entrepreneurs could benefit from practical information on starting businesses. This chapter presents a summary of introductory principles on the subject.

Managing Risk Through Business Planning

Testing Hypotheses

Every new business is a test of at least two hypotheses. The first hypothesis is that there is a demand for the product or service under development. The second hypothesis is that the good or service can be sold for a price which covers its cost of production. If the output cannot be sold at a price sufficient to cover costs, the enterprise will lose money and eventually become bankrupt. Both hypotheses are testable propositions. In order to reduce and manage risk, as much testing as possible should be undertaken through proper business planning before starting a business.

Risk and Uncertainty

Starting a business is a risky venture. No one can see the future perfectly, and it is possible that a new business can fail for many reasons. Business planning can be defined as a process through which a business owner reduces risk by considering each of the activities associated with the development and management of a business venture. The business planning process can also be used when an existing business is being expanded through the addition of a new product or the development of a new service.

Business planning is conducted in a systematic manner. A set of standard questions should be answered. The questions are not determined by cultural boundaries, or even by the type of business that is being started. They are the same whether the business being started is in the United States, Germany, or the Ukraine and whether the new business being planned is very small or very large. Millions of business owners have done the research needed to complete a business plan before beginning a new business.

Categories of Questions

This action plan will not consider each question that should be included in a business plan, but will present the major categories of questions so that readers can understand the basic logic behind each category.

Demand and Marketing

The first category deals with the broad issues of *demand and marketing*. The opening question is both very simple and very complex: What is the product or service being produced? Is it simply producing potatoes? Or does it include bringing the potatoes to the customer? If so, the business is more complex because the potatoes must be transported as well as grown and harvested. Will the potatoes be sold year round? If so, cold storage might be required. In other words, a business person must decide exactly what he/she wants to produce before deciding how to produce it.

Many questions related to customer demand, market, and competition must be addressed. Are there customers for the product? How will potential customers know about the product? Are there competitive producers? What is the strategy for marketing and promoting the product or service and for competing in the marketplace?

Production and Supply

The second category of questions deals with *production and supply.* Many sub-categories of questions are involved, but in general they include a review of the resources needed for production. What skills must workers have? Is special training or equipment required? What size production facility is needed? Must components be purchased from other producers? Is governmental permission required to use certain resources? In other words, a business person must determine exactly how he/she will go about producing the desired product.

Finances and Other Constraints

At this point in the planning process, a business person hopefully knows what he/she wants to produce and how to go about producing it. The third category of questions follows logically. How much capital is needed and how will it be raised?

It is important to note that the question of finances and other constraints cannot be answered until the other questions in the categories above have been addressed. The need for capital can be considered a constraint on one's ability to start a business. A well-prepared business plan can help minimize capital requirements. Other constraints would also be addressed in this section of the plan, such as the need to obtain government permits and licenses. Finally, the business plan should help ensure that the business is environmentally sound, using a minimum of scarce resources, recycling and restoring when possible, and in general striving to maintain a high quality of life for the community..

The Business Plan as a Living Document

The business plan is a living document. It is written to help clarify exactly what a business is attempting to do and exactly how that business will go about accomplishing what it wants to do. A business plan is produced by collecting the best available information to answer necessary questions. If external conditions change in the future, or if the business generates unexpected results, the plan should change in order to allow the business to adapt to unpredictable conditions.

FINANCIAL RESOURCES FOR SMALL AND MEDIUM ENTERPRISES IN UKRAINE

Overview

The following tables briefly describe potential sources of financing for your business projects. Both debt and equity are available, as well as debt/equity combinations, depending on the feasibility of your enterprise, and the goals of the financial service provider. Terms vary from a couple of months to several years. Interest rates are typically set according to the market. Projected returns on equity investments will vary according to the project and the discretion of the financier. Final approval of any financial request, of course, is up to the service provider. You should contact the offices indicated below for a fuller description of their program, and to make application for financing.

Name:	EBRD Credit Line for SMEs (Channeled through the National Bank of Ukraine)
Contact(s):	Project Monitoring Unit (PMU) Nathalie Yakubenko, Head of PMU 7, Nauka Prospect Kiev 252028 Tel: 267 3922 or 264 9612 Fax: 267 3921 Following are the Participating Banks: AVAL Bank Olga Titova, Head of Investment Programme Dept. 9, Leskova Street Kiev 252011 Tel: 295 1633 Fax: 295 1633 GRADO Bank Irina Yatsenko, Head of Foreign Investment Dept. 7, Kudriavsky Street Kiev 254655 Tel: 212 2400 Fax: 417 4379 PRIVAT Bank Sergey Prokofiev, Head of Foreign Investment Dept. 32, Naberezhnaya Pobedy Dniepropetrovsk 320094 Tel: (0562) 463 333 Fax: (0562) 471 230 Ukrainian Credit Bank Ludmila Tatarnikova, Executive Manager Project Management Department

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	37, Peremohy Avenue Kiev 252056 Tel: 219 2979 Fax: 274 3027 UKRINBANK Michael Dobrov, Deputy Chairman 12-A Institutska Street Kiev 252601 Tel: 228 7637 Fax: 229 0275
Types of Businesses Served:	Must be private sector owned and controlled, commercially viable, financially sound
Eligibility Criteria:	• 500 or fewer employees • Pre-project assets (on a replacement basis and excluding building and land) of US $ 2.5 million or less • Not an affiliate of the Participating Bank providing the loan • Maximum debt-equity ratio (on an overall corporate basis, including the loan) of 70:30 • Debt service coverage ratio of not less than 1.3:1 • No material changes to the corporate charter (shareholder structure, nature of business, etc.) shall be allowed without the prior consent of the Participating Bank • Dividend restrictions must be tied to debt service obligations • Projects must be a minimum of $75,000 and a maximum of $ 4.0 million
Type and Range of Financing Available:	• US Dollar financing is available for: 1. long-term financing of capital goods and permanent working capital 2. short-term financing of export contracts 3. short-term financing of imported inputs for processing 4. leasing • Loans will not be granted to: 5. refinance existing obligations to the Participating Banks 6. finance residential real estate projects 7. finance equity investments • Range is from a minimum of US $50,000 to the least of: 1. $ 2.5 million, provided that the total of loans to any borrower (or group of related borrowers or parties) does not exceed $ 5.0 million 2. 20% of the Participating Bank's paid-in capital and reserves 3. 70% of the total cost of the project 4. lower amounts, if required by the prudential standards of the National Bank of Ukraine
Terms and Conditions:	• Repayment period will depend on the cash flow of the project. Exports and imports typically being 6 to 12 months periods. The maximum period will be five years, including a maximum grace period of two years.

	• Interest charged will be the sum of: 5. the cost of funds to the Participating Bank (six-month variable LIBOR dollar rate, plus 300 basis points); 6. a margin that provides the Participating Bank with a commercial return; and 7. commercially reasonable fees
Application Procedures:	Appraisals will be carried out by the Participating Banks, including detailed business plans. The application shall include a summary of the environmental due diligence acceptable to the EBRD and consistent with applicable environmental laws and regulations of the Ukraine. Projects related to gambling, manufacture of hard liquor or munitions, and goods or activities on the Environmental Exclusion List of the EBRD will not be accepted.

Name:	The Ukraine Fund
Contact(s):	Valeriy Schekaturov 20 Pushkynskay, Apt. 26 `Kiev 252004 Tel: 228 6216 or 2241910 Fax: 228 0916
Types of Businesses Served:	Companies that are owned and managed by Ukrainian entrepreneurs producing goods and services for the Ukrainian domestic markets. The Fund's goal is to groom companies to become strong candidates for public trading on the Kiev Stock Exchange as it develops over the next few years.
Eligibility Criteria:	The Fund's primary interest is in the consumer goods area. They are looking for well managed, entrepreneurially driven companies that have the opportunity to achieve and sustain a dominant competitive position in their respective markets.
Type and Range of Financing Available:	Equity investments ranging from US $100,000 to $300,000. The Ukraine Fund normally takes equity positions of between 20% and 50% in each venture.
Application Procedures:	Contact the Fund office in Kiev.
Examples of Financing to Date:	All of the Fund's partners have been businesses started by Ukrainian entrepreneurs, as opposed to privatized state enterprises. Most of these ventures have been in consumer goods and distribution. As of April 1996, the Fund had made 19 investments.

Name:	AVAL Bank/Eurasia Foundation Small Business Lending Program
Contact(s):	Oksana Motornaya AVAL Bank Room 516 9-Leskova St. Kiev 252011 Tel: 294 8612 Mary Kay Fuller The Eurasia Foundation Kiev Tel/Fax: 295 5505
Types of Businesses Served:	• Companies having under 100 employees • Companies focusing on production of goods or services (trading will not be considered)
Eligibility Criteria:	• Companies must be Ukrainian-owned • Joint ventures with foreign partners will not be considered • Companies must be located within one of the targeted regions: Donetsk, Dnipropetrovsk, Kharkiv Luhansk, Zaporizhzhja Mykolayiv, Ternopil, Ivano-Frankivsk, Cherkasy, Chernihiv, Kherson, Poltava, Lviv, Rivne, Sumy, Kiev Oblast (excluding Kiev City)
Type and Range of Financing Available:	Loan amounts up to US $100,000
Terms and Conditions:	• 15% annual interest • Up to 2 years for repayment • Appropriate loan security is required
Application Procedures:	Contact an AVAL Bank Branch office representative, or the main office in Kiev. Consultative assistance is also available through the AVAL Bank or the Eurasia Foundation to potential borrowers in developing their business plans.

Name:	Western NIS Enterprise Fund Small Business Loan Fund
Contact(s):	23 Mariny Raskovoy 2nd Floor Kiev for mail: P.O. Box 537 252001 Kiev Tel: 517 4222 Fax: 517 5154
Types of Businesses Served:	• New private and privatized enterprises • Wholly locally-owned businesses, or, if foreign partners are involved, businesses where the local partner owns at least 30% of the shares • Wide range of businesses may be served, but the Fund has particular interest in: agribusiness, repair shops, small-scale retailing, woodworking, and textile and shoe production. • Financing of new technologies or scientific research will not be considered.
Eligibility Criteria:	• Submission of Small Business Loan Fund Application Form and Business Plan • Companies must be private with no government involvement • Projects must be profitable • Business cannot be involved in weapons production, gambling, or liquor • Business must comply with local laws, including environmental legislation
Type and Range of Financing Available:	Financing loans and leases from US $500 to $100,000
Terms and Conditions:	• Repayment periods range from several months to three years • Loans and leases are offered at market rates • Collateral security is required
Application Procedures:	Applications can be obtained from the office in Kiev