



USAID
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ASSESSMENT OF UKRAINE-POLAND CROSS-BORDER TRADE

EXECUTIVE REPORT



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1.0 – EXECUTIVE SUMMARY

In August 2005, a United States Agency for International Development (USAID)-funded Small- and Medium-sized Enterprise (SME) cross-border trade assessment was undertaken for businesses in Poland and Ukraine. One of the study's key objectives was to identify Information and Communication Technology (ICT) solutions that would facilitate the physical movement of goods across international borders and help businesses collaborate as part of global supply chains. The team of ICLogistics' trade, transportation and ICT professionals interviewed business owners, representatives and organization leaders and visited border crossings in preparing this assessment.

Recent world events have led to a changing landscape for trade in the region. Poland's accession to the European Union (EU) has created a whole new trade regime along Ukraine's border, while Ukraine's Orange Revolution has fueled hopes for increased economic prosperity. The new landscape demands varying responses for improving the relevant institutions, physical infrastructure and ICT infrastructure. Fulfilling Ukraine's hope for greater prosperity will depend on implementing improvements and reform in a coordinated, committed and relevant way. Following are the reports summary findings:

Finding Number 1 – The level of trade between Poland and Ukraine is low but increasing, with significant potential for the future.

Finding Number 2 – SMEs are primarily domestically focused, and the majority of international trade is conducted by larger business entities.

Finding Number 3 – The greatest challenge to Ukrainian exports is an outdated institutional framework that is exacerbated by Polish EU membership.

Finding Number 4 – ICT solutions can improve the chances for the success of pending improvements to the Ukrainian institutional framework, such as Customs modernization.

Finding Number 5 – Business-to-business ICT solutions will improve the efficiency of SME's cross-border trade independent of reforms undertaken by government.

2.0 - INTRODUCTION

The transition to a sound, market-oriented economy driven by private sector growth and a competitive, free-market environment is the key to the success of economic reform in countries like Ukraine and Poland. Strengthening business competitiveness by improving productivity and easing the legislative regulatory and administrative burdens enhances future economic expansion, sustained prosperity, and regional stability for private business. To achieve these results, USAID has concentrated efforts on boosting economic growth and generating employment, with the intention of positioning these economies to sustain competitive pressure and prepare the private sector for global market integration.

USAID approached support to the private sector as follows:

- Providing Technical Assistance (TA) to enterprises and competitive industry clusters.
- Promoting regional trade and stimulating investment.
- Improving country competitiveness by developing and implementing industry level strategies.
- Supporting venture capital funds, credit mobilization, and financial intermediation to increase access to finance and capital for SMEs.

This report, *Assessment of Ukraine-Poland Cross-Border Trade*, is written specifically in the context of trade facilitation to support the competitiveness of Small and Medium Enterprises (SMEs).

Objectives of this Assessment

The specific objectives of this trade assessment between Ukraine and Poland are to:

- Analyze the existing conditions for SMEs to move goods between Poland and Ukraine and its impact on trade.
- Identify challenges and impediments to trading between Poland and Ukraine faced by SMEs.
- Identify potential ICT solutions that enable and improve the ability of SMEs to:

- Move goods across borders with minimal delays; and
- Participate, collaborate, and trade electronically as participants of international and global supply chains.

Organization of this Report

This report is an assessment of the current trade situation between Ukraine and Poland, including border crossings and the identification of potential technology solutions that could further develop and improve trade business per SMEs in both countries. The report looks at Ukrainian and Polish trade in three primary contexts –the framework for trade, the infrastructure for trade, and the technology that supports trade. The assessment is written from the point of view of an SME located in Ukraine trying to trade with Poland and intentionally focuses more heavily on issues and opportunities for Ukrainian SMEs. Nonetheless, the recommendations, if successfully implemented, will likely yield benefits on both sides of the border.

3.0 – BACKGROUND

The level of trade between Ukraine and Poland has improved in recent years, after stagnating at the start of the century. The changes in Ukrainian society that began with the collapse of the Soviet Union and have been fueled by the Orange Revolution have resulted in a Ukrainian market with growing demand for goods and services.

The accession of Poland to the European Union (EU) in 2004 with new standards and regulations made exportation to the West more difficult for Ukrainian firms, fueling the perception that the EU is closed to Ukrainian exports. However, while Russia remains the largest single trading partner of the Ukraine, trade has begun to shift away from Russia and toward the European market – as the share of trade with Europe increases, so does the trade with Poland.

While only about five percent of Ukrainian trade is with Poland,¹ this trade partnership is on the rise, growing by thirty percent from \$1.5 billion in 2003 to \$2.0 billion 2004²

¹ Source: Ukrainian Embassy in the US, www.ukremb.com/

(another source places total 2004 trade at to \$3 billion³). Trade grew by an even steeper fifty percent the prior year. In an August 9, 2005 speech, the Polish ambassador to Ukraine stated that recent trade between Poland and Ukraine had increased 100 percent.

Based on several sources, including The BIZPRO Project⁴, the balance of trade in terms of imports and exports is evenly balanced. However, the mix of trade is distinctly different. Exports to Poland from Ukraine are essentially resource-based goods such as steel, ores and fuels, while imports from Poland into Ukraine are characteristically merchandise goods such as vehicles and electronics.

4.0 - STATUS OF UKRAINE-POLAND CROSS-BORDER TRADE

Institutional Framework

The overall institutional framework for cross-border trade is defined and influenced from two primary directions. The first stems from Poland's integration into the EU in 2004, which has had a wide range of implications for institutions, businesses, and regulations. The second arises from the outmoded institutions and regulations that Ukraine inherited from the former Soviet Union, which also directly impact institutions, businesses, and regulations.

² Source: The BIZPRO Project, 2005.

³ Source: The Warsaw Voice; 22 June 2005.

⁴ USAID's BIZPRO project objective is to contribute to the economic growth of Ukraine by increasing enterprise competitiveness in local, regional, and international markets and improving the business environment. The project focuses on economic sectors that have the greatest potential for increasing the competitiveness of enterprises in Ukraine. Assistance is provided at the enterprise, sector, and national (policy/legal) level.

Value of Merchandise Trade between Ukraine and Poland

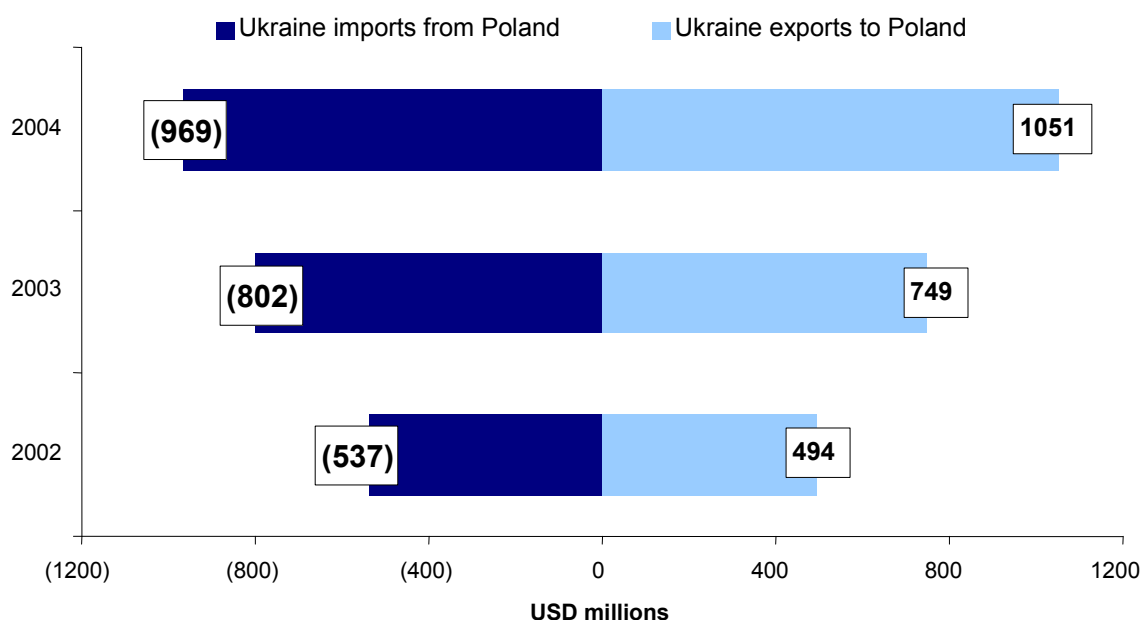


Figure 1: Value of Merchandise Trade between Ukraine and Poland, Courtesy of The BIZPRO Project

Ukrainian imports from Poland 2004			Ukrainian exports to Poland 2004		
	USD mil	%		USD mil	%
Total	968.68	100	Total	1051.14	100
HS 87 Vehicles, except railway or tramway, parts	169.70	17	HS 27 Mineral fuel, oil, etc.	248.46	24
HS 48 Paper and paperboard, articles	112.34	12	HS 72 Iron and steel	235.58	22
HS 84 Nuclear reactors, boilers, machinery, parts	88.76	9	HS 26 Ores, slag, and ash.	228.63	22
HS 39 Plastics and articles	72.91	8	HS 29 Organic chemicals	56.06	5
HS 44 Wood and articles of wood; wood charcoal	51.84	5	HS 44 Wood and articles of wood; wood charcoal	42.88	4
HS 33 Essential oils; perfumery, cosmetics	38.76	4	HS 23 Food industry residues and waste	27.42	3
HS 73 Articles of iron or steel	30.27	3	HS 73 Articles of iron or steel	26.86	3
HS 85 Electric machinery, sound and TV equipment	28.46	3	HS 35 Glue, enzymes	21.95	2
HS 68 Art of stone, plaster, cement, asbestos	25.66	3	HS 25 Salt, sulfur, etc.	21.14	2
Others	205.41	21	Others	142.15	14

Figure 2: Ukrainian Imports from and Exports to Poland 2004, Courtesy of The BIZPRO Project

The Integration of Poland into the EU – As neighbors, Poland and Ukraine have enjoyed aspects of a common history. However, recent history has seen several significant divergences, including the accession of Poland into the EU. While Ukraine is not a member, the full membership of Poland into the EU has had a marked impact on trade between the two nations that is likely to continue. In an effort to satisfy the *acquis communautaire*⁵ set out for integration with the EU, Poland is implementing a new restrictive border regime to her East. These regulations include efforts to clamp down on illegal trade lanes (drugs and illegal migration). (Based on interviews conducted for this assessment, these new restrictions have impacted cross-border movement in several ways.)

- **Impact on Border Crossing/Visa Issues** – The Poles waited until October 2003 to implement the visa regime since it was thought that the EU mandated visa regime would inhibit the flow of trade from Ukraine into Poland. In the first six months following its introduction, cross-border mobility decreased 30 percent. However, by March 2005, the number of visitors from Ukraine had



Picture1: Polish Consulate, Lviv

returned to levels similar to those prior to the introduction of the visa regime.⁶ The Polish consulate estimates that only one percent of visa applications are rejected. However, Ukrainians entering Poland typically undergo strict luggage checks, and can wait between two and three hours⁷ queuing at the Polish-Ukrainian border. Ukrainians also endure long lines and waits at the embassies and consulates when applying for visas.

⁵ The entire body of European laws is known as the *acquis communautaire*. This includes all the treaties, regulations and directives passed by the European institutions as well as judgments laid down by the Court of Justice.

⁶ Source: Iglicka, Krystyna, Center for International Relations, "EU Membership Highlights Poland's Migration Challenges," Warsaw, Poland, April 2005.

⁷ Source: Transitions Online, formerly Central Europe Review, www.ce-review.org.

- **Commercial Traffic Wait Times** – The Polish integration into the EU also impacts the flow of commercial vehicle traffic between the two nations, examples of which were witnessed firsthand. According to interviews with truck drivers and Customs officials at the Rava-Ruska border, it was learned that the commercial vehicles lanes at the Polish side are only open during daytime hours⁸, causing the trucks to queue up overnight. The result is a daytime surge in truck traffic on the Ukrainian side as trucks are released. The Ukrainian Customs process is not setup to handle high surges in traffic.



Picture 2: Drivers at Ukraine Border

- **Disparate Discretionary Environment** – As is noted further in this report, there has been a crackdown on corrupt activities on the Polish side of the border, particularly as a result of meeting the standards and requirements of EU integration. This has created disparity in the overall border environment, where the level of discretion remains higher on the Ukrainian side than on the Polish side.

There is a collegial atmosphere among drivers (used to enduring long wait times) at the Ukrainian border. They joked that having spent so much time together, they are practically brothers.

The drivers eschew a line in favor of their informal monitoring system. These drivers estimated that it took six hours to clear the Polish border, and they were anticipating a minimum of eight hours at the Ukrainian border.

Border Crossing Procedures on the Ukrainian Side – The environment for border trade on the Ukrainian side stifles trade in general, and specifically SME trade. This environment is manifest in at least three ways. Firstly, the regulations governing trade and Customs procedures are not consistent with modern trade procedures. Secondly, the environment in which Customs officials operate is not transparent, leading to a high opportunity for corruption. Thirdly, the border crossing procedure is cumbersome.

⁸ It was inferred that the daytime-only operations were a result of EU requirements.

- **Ukrainian Customs Regulatory Environment and Procedures** – It is well documented that Customs procedures of Ukraine are remnants of the Soviet era and are in need of modernization. The current procedures are not transparent, are inconsistent, and allow for a great deal of discretion (see next section). The Deputy Prime Minister himself has openly stated that the Customs agency and its regulations and procedures must be updated, and he is believed to be pressing for change. The Customs Director has also publicly indicated the need to modernize.
- **Discretionary Environment** – Time and again, the issue of corruption is raised as a significant issue with Ukrainian institutions. While not mentioned as often, it is also a significant issue in the Polish context. Transparency International Corruption Perception Index (CPI) 2004⁹ awards a score of 3.5 to Poland and 2.2 to Ukraine on a scale of one to ten, with ten being “cleaner.” Transparency International also notes that between the 2003 and 2004 CPI surveys, the perceived level of corruption in Poland increased. It is hard to determine if this reflects an actual spike in corruption or changed perceptions leading up to EU integration. What is known is that greater policing efforts are underway as a result of EU integration. There have been some unintended negative impacts from efforts by government to better police and clamp down on corruption and bribery, particularly on the Polish side. Several interviewees stated that bribes on the Ukrainian border are getting higher, although the incidence of bribery may be declining. This is attributable to the higher risk of getting caught and the consequences thereof. One interviewee reported that Customs officials were purposely allowing lines to get longer in an effort to increase the desire to pay bribes. However as, stated earlier, there were other reasons for the longer lines, one of which was the surge in truck traffic in the morning when the Polish side opened. These surges did not occur when the Polish border operation was open longer hours.
- **Cumbersome Procedures** – The Customs clearance at the border is a cumbersome paper-based process. Truck drivers are required to provide as many as six invoices for the products they are carrying through the border, all originals and without corrections. Due to an archaic paper-based Customs clearance process, the

⁹ Source: Transparency International, <http://www.transparency.org/cpi/2004/cpi2004.en.html>

Customs clearance time per commercial vehicle is approximately 40-60 minutes. Therefore, depending on where a vehicle is in the line, it can take several hours to pass through the Ukrainian side. The drivers spoken with at the Rava-Ruska border crossing had arrived at the Polish side at 8 am and did not expect to complete the process and enter into Ukraine until 10 pm, at the earliest.

- **A Climate for Change** – Despite finding that Ukraine has some key issues to resolve on the way toward enhancing trade and development, there exists climate for change. Most of the people interviewed were confident that change was occurring, although slowly. The Orange Revolution itself is an indication of willingness to undergo change, and the nation’s leadership has already made Customs modernization a priority. That said, the true challenge is to have all levels of government consider and support the changes. If they do not, policy may change at the leadership level but day-to-day practices will remain the same.
- **A Guillotine Approach** – The process of changing government procedures and regulations can be slow and painful. An approach to minimize the duration and impact of government reform is to use a quick and deliberate approach, such as the regulatory guillotine. This approach, used in Switzerland, New Zealand, and Korea, lessens the pain of overhauling government roles and regulations by abruptly and completely eliminating superfluous regulation, as opposed to using a slower more phased approach. With the guillotine approach, regulations are evaluated over a given period (12 to 24 months), at the end of which the so-called guillotine drops and all the old regulations that cannot substantiate their usefulness are eliminated. There was no indication whether the Ukraine government had officially committed to this approach, but at least two key interviewees, one with the Bleyzer Foundation, and the other with The BIZPRO Project, indicated that the Ukrainian government was considering at this approach.

Transportation Infrastructure

Ukrainian Transport – Ukraine has an extensive state-owned and centrally planned transportation system. While Ukraine enjoys a well-developed public transportation system within the major cities, the country’s freight transportation has significant opportunities for improvement. The freight transportation system includes rail, road, seaports and airports.

- **Rail** – Ukraine has a well-established rail system with over 14,000 miles of track, industrial and urban centers, and port facilities with neighboring countries. The system is underutilized, operating at 60 percent of capacity. Part of the reason is poor service. The current monopoly rail carriers have little incentive to modernize the system or improve the quality of rail transport services. It is important to note that rail transport does not have a major impact on SME trade. Rail is a bulk form of transportation that best serves the raw materials and agriculture sectors, as well as basic manufacturing sectors. These sectors generate great volumes of goods of a relatively low value-to-weight ratio that typically do not have significant level of service requirements. Individual SMEs are not large enough to be well served by rail.
- **Road** – The country has a 101,000-mile system of highways, of which a small share are multi-lane highways located mostly in urban areas. While the country is crossed by four international transport corridors (N3, N5, N7 [sea], and N9), it does not have a well-developed system of multiple lane highways that connect its major cities and communities. The same is true for trade. The country does not have a system of highway trade corridors that link border crossings, ports, airports, rail yards, and major logistics centers, etc. A network of mostly two-lane roads that are not designed for handling high trade volumes serve exporters. While this assessment is not a detailed transportation engineering or planning study, it does find that the road system is not designed and built for carrying high volumes of trucks typically associated with high volume trade corridors. The typical issues that will arise as trade grows include the load-bearing capacity of the roadway surfaces and bridges, the width of the lanes, the number of lanes and the geometric design (curvature and slope) of the roadways. It is important to note that, unlike rail, highway transportation

(trucking) plays a more significant role in SME trade. Trucks tend to be more service-oriented and can carry smaller loads more suitable to SME requirements.

- **Seaports** – Ukraine has a well established set of ports, the largest of which are in Odessa, Yuzhny, Illichevsk, and Mariupol. While these ports account for a large volume of the national trade, they have limited capabilities for containerized, refrigerated, rolling or break bulk cargo, or other general freight. The country also has several key waterways, including the Dnieper and the Danube rivers for international freight.
- **Airports** – The largest airports are in Kyiv, Kharkiv, Odesa, Donetska, and Lviv, with Air Ukraine serving as the national cargo airline. There are several air cargo service providers and integrated carriers, including UPS.
- **International Trade Corridors** – While Ukraine, as a whole, is at a crossroads for freight moving between some of the fastest growing markets in Europe, Central Asia, and the Middle East, the Ukrainian's border with Poland is a crossing point for a key international trade corridor in Europe. TRANsport Corridor Europe Caucasus Asia (TRACECA) is a program supported by the EU to develop an East-West transport corridor from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. A key segment of this corridor called the Yagodin-Ilyichevsk (rail and road) corridor passes through the Ukraine-Poland border as it snakes eastward through Odessa on to Central Asia. Once fully deployed, this corridor will play a key role in international trade between Poland and Ukraine.
- **Freight Transportation Services (Freight Forwarding)** – The freight services market is emerging in Ukraine. Locally based service providers have their own network of agencies in foreign countries. An indication that the industry is on the rise is the fact that it is organized. The Association of International Freight Forwarders of Ukraine (AIFFU) represents freight forwarding companies in Ukraine. However, only a limited number of service providers can render a comprehensive set of services to meet world class standards. The education level of staff in the industry does not correspond to the international norms, standards, and requirements of a free market.

- **Challenges in the Freight Transportation System** – While the existing freight transportation network serves the current level of trade, it will not be able to handle significant increases in international trade. Historically the country’s freight transportation system has served bulk commodities like metallurgy, chemical, forestry, machinery construction, and fuel giving rise to a well-established rail system. However, as Ukraine integrates into the global economy, it will need to develop a freight transportation system that can respond to the demands of a modern global supply chain. Modern logistics systems tend to rely on trucking (highway) services since this mode offers the greatest level of service and flexibility in load size, schedule, and route options. Ukraine does not have a system of international highway trade corridors and hence its transportation is not in a position to support significant long-term growth in international trade.

Infrastructure at the Ukrainian Border –The physical infrastructure at the Rava-Ruska border is not at a level consistent with a high volume trade border. Since trade levels between Poland and Ukraine are not substantial, the lack of physical infrastructure is not a significant impediment to current activities. However, if trade flow continues to increase, the physical infrastructure will start to become a barrier.

- **Lanes** – The Rava-Ruska border crossing lacks an adequate number of lanes. Commercial vehicles are limited to one lane in each direction. There are no passing lanes or designated queuing lanes for trucks waiting in line for inspection. Trucks waiting to be inspected simply park in the main lane, blocking the advancement of any trucks located further back in the line. This becomes an issue if trucks further back in the line are able to accelerate their clearance procedure or receive pre-clearance. No trucks were observed receiving accelerated or pre-clearance. Nonetheless, a well-functioning modern border crossing designed to handle high volumes of traffic will typically offer accelerated and pre-clearance services, and that requires adequate queuing and passing lanes. On the passenger side, four passenger lanes were observed, with the lines of waiting cars queuing up the entire length of the four lanes. The traffic queues were curving around toward the main entry route. Any



Picture 3: Border Lanes, Ukraine

increases in traffic would essentially extend the queues into the main highway route, blocking all incoming truck and passenger traffic from the Polish side. Therefore, while this is not a detailed traffic study, this preliminary assessment determines that if traffic continues to grow at the border, traffic congestion and queuing overflow will become more difficult to control. Hence, traffic design and layout at the Ukrainian border, both commercial and passenger, is an impediment to increasing trade.

- **Booths** – It was observed that each lane had its own Customs control booth, suggesting that there was an adequate ratio of booths to lanes. The process time at the respective booths was determined to be the single largest reason for the queuing of cars and trucks. Border delays are not caused by the number of booths, but rather the activities being conducted in the booths.

Polish Transport – While Poland has a more developed transportation system than Ukraine, it is also not on par with Western European standards. Like Ukraine, it has a rich mix of roads, expressways, highways, waterways, and railroads. Its rail system consists of 14,000 miles of track, a significant share of which is electrified, primarily for the provision of passenger rail services. The country has almost 220,000 miles of roadway, including some highways and expressways, most of which are two lane roads connecting communities around the country. While there has been little new road construction in the last fifteen years, the level of investment in road infrastructure is intensifying. Current plans show that by 2008, all major cities in Poland will be connected by expressways to the major expressway system serving Western Europe. Poland has eight major airports and eight principal ports and harbors. The overall assessment determined that the Polish transportation system, while still needing some improvements, is not a major barrier for trade with Ukraine. Transportation improvements in Ukraine will have the greatest impact on improving trade between Ukraine and Poland.



Picture 4: Warsaw Airport, Poland

ICT Infrastructure

The border ICT infrastructure that implements the Ukrainian government functions in the trading process is rudimentary and almost non-existent. Polish border procedures fall under EU standards, and the EU has provided Poland a ready and working ICT system to adopt. Polish border operations suggest that their ICT systems are more advanced.

ICT Infrastructure on the Ukrainian Side – Ukrainian border procedures at the Rava-Ruska border crossing are conducted completely on paper. There are no computerized systems. Ukrainian Customs operations at the border do not have basic dial-up Internet access for purposes of daily data uploads and reports. The only form of ICT infrastructure witnessed were cameras that captured images of commercial vehicles' license plates. There was no integration of this particular form of ICT into the rest of the Customs data collection and management process. Rather than creating and storing digital images and linking them with the respective Customs transactions data, these images are printed in hard copy and filed with the hard copy Customs clearance forms. Therefore, even though there exists some indications of ICT, the opportunity for systems integration does not exist, simply because no ICT system exists. As expected, communications between Ukraine's border agencies is also paper-based.

ICT Infrastructure on the Polish Side – Interviews consistently revealed that the level of ICT infrastructure to support Customs and Immigration procedures on the Polish side was quite sophisticated. In an interview with a Polish immigration official, he demonstrated a remote hand-held device that was connected to a central server using cellular phone technology, which allowed him to efficiently process passports in real time. The reason for this progressive level of ICT infrastructure in Poland is as a result of at least two factors. First, the Polish integration into the EU requires it to use the same standards as other EU countries. The device demonstrated by the Polish immigration official was an EU standard device. Secondly, Poland has a higher standard and density of ICT infrastructure than Ukraine, partly because of a relatively less dominant period of Soviet influence in its development and partly because of its more proximate ties to the Western European economies.

Communication Across the Polish-Ukrainian Border – With the lack of ICT systems on the Ukrainian side of the border, all cross-border communication must default to the lowest common denominator and cannot be handled electronically. As it was explained during an interview with a Ukrainian border official, all official inquiries across the border were handled in written form. It did not appear that telephone communications were employed, and this may be attributable to the official nature of the communications. However, what was clear is that the real-time cross-border cooperation challenges of trade and security were ill-served by current methods.

5.0 - IMPACT ON TRADE BUSINESS FOR SMES

Framework for SME Trade

In both Ukraine and Poland, SMEs are defined as businesses with less than 50 employees. Businesses of this size appear to be playing a small role in international trade. The Association of Small Business in Lviv Oblast (a Western region of Ukraine) estimates that 5 percent of its members are trying to trade with Poland. With the growth of the Ukrainian domestic market, costs of corruption, and border crossing challenges, Ukrainian SMEs can gain market share more easily by focusing on the domestic market.

Relatively Weak Economies – Western Ukrainian SMEs, those closest to the Polish border, are most likely to export into Poland. Likewise, Eastern Polish SMEs are most likely to trade with Ukraine. Unfortunately, these areas share relatively weak economies. Eastern Poland lies on the eastern edge of the large Western European economy and has a weaker economy and higher rates of unemployment than other areas of Poland. Western Ukraine lies on the western front of the former Soviet complex, the dismantling of which has had a lasting impact on Western Ukraine, particularly Lviv Oblast. While official statistics place unemployment in Lviv Oblast at 4 percent, Oblast leaders suggest that this figure is much higher due to underemployment. While the region has a rich heritage in high technology defense industries, these were all but abandoned after the fall of the Soviet Union, leaving an employment void in the region. While education levels in the region are high, trained professionals are not always able to find work in their professions and resort to non-professional jobs or, in some cases, enter the

informal economy. This region is in a transitional phase characteristic of any society with a rich endowment of education and culture that has experienced a sudden and dramatic loss in employment opportunities. The general consensus was that trade with Poland and Europe was a critical element of the rebirth of the region. However, one challenge is that the border economies are weaker than that of their nations as a whole, meaning they drive less demand for their potential trading partner.

Agricultural Trade – Western Ukraine and Eastern Poland are mainly rural economies, characterized by agriculture and low value-added basic industries. For instance, the chief industries of Lviv Oblast are agriculture, cattle and sheep farming, and forestry. Agriculture's protected status within the EU and lingering suspicions about the impact of the Chernobyl disaster make exporting foodstuffs from Ukraine into Poland a challenge, and the flow of foodstuffs tends to be from Poland into Ukraine. Ukraine's main agricultural export to Poland is illegal labor to support the Polish agricultural industry. Poland can sell foodstuffs into the EU at favorable prices, and the relative strength of its industry allows it to export "leftover" foodstuffs to Ukraine, where prices are arguably weaker.

Low Position on the Value Chain – Ukrainian businesses are starting to move their production up the value chain, with any eye toward the EU market. According to the President of the Lviv Chamber of Commerce and Industry, agricultural processing and light industry are becoming more significant in Lviv Oblast. One such bright spot is the Ukrainian furniture

FURNITURE INDUSTRY

The fifth largest export to Poland from the Ukraine is Wood articles. Recently, the Ukrainian furniture industry was showing signs of substantial growth – an estimated production increase of 26 to 30 percent for 2004 – in part due to increases in exports. Sales were projected to reach \$700 to \$800 million USD. The industry is the recipient of substantial foreign direct investment, attracting nearly \$100 million USD in 2003.

The furniture industry is also the source of income for many SMEs, with as many as 9,000 registered furniture-making companies in Ukraine. According to the All-Ukrainian League of Furniture Manufacturers, 11 companies produce more than 50 percent of the total Ukrainian furniture output, with 21 companies accounting for more than 70 percent of total output.

--The BIZPRO Project

industry. The Lviv Chamber of Commerce has also established a program in partnership with the Belgian Chamber of Commerce to train Ukrainian workers to produce at EU standards of quality. This suggests a possible improvement in the potential for trade along the Polish-Ukrainian border.

Efforts to Increase Ukraine-Poland Trade – Free economic zones were established on the Ukrainian side of the Polish-Ukrainian border to attract capital from Polish companies interested in taking advantage of Ukrainian labor and favorable duty treatment. Commerce grew very quickly in these free zones, and the perception in Ukraine was that they were havens for illegal activity. In March 2005, the special benefits offered by the Ukrainian government to businesses located in the free zones were terminated, almost overnight, to approximately 200 enterprises. Some legitimate businesses were caught in this policy change, and a lawsuit is currently pending against the Ukrainian government.

The establishment of the free zones was an attractive option for some Polish businesses that have seen the costs of doing business rise with EU membership. In some areas of Poland, business people believe that EU membership has brought more problems than benefits to Poland. Polish companies are exploring and moving operations across the border into Ukraine to avoid EU standards and regulations and access lower cost labor. Polish businesses, particularly SMEs, are feeling market pressure from established EU companies that can take advantages of economies of scale and now have easier access to the Polish market. As in Ukraine, Polish industry is seeking the path of least resistance and focusing trade eastward.

The opposite scenario is also the case, with Ukrainian companies seeking a foothold in the EU by opening operations in Poland. The European market is widely perceived as closed to Ukrainian businesses, and trying to meet EU standards from Poland is easier than from within Ukraine. Therefore, Ukrainian companies are investing in and acquiring Polish operations as a means to simplify EU market access. The result is that a growing amount of trade is conducted as Foreign Direct Investment (FDI) for the purpose of building and expanding access to new markets. However, this phenomenon seems limited to larger businesses.

Financing Trade and Business Growth – SMEs are not well positioned to access equity or debt capital for the purposes of growing their export opportunities and therefore remain small.

- **Limited Credit Availability for SMES** – Despite an increasing focus on cross-border FDI, accessing the necessary credit is a challenge for most Polish and Ukrainian companies. Ukrainian interest rates were quoted at 18 percent for a municipal entity and 25 percent for a private business entity. The cost is prohibitive for most Ukrainian SMEs.
- **Increasing Investment from Outside the Region** – The Polish experience with FDI has an established and positive history. FDI is beginning to flow to Ukraine and at least two Western-style buyout funds are active in Ukraine, Western NIS Enterprise Fund and Sigma Bleyzer, are acquiring, repositioning, growing and selling established companies. Published newspaper reports also touted the arrival of prominent US venture capitalist, Tim Draper, who is exploring the establishment of a venture capital fund in Ukraine. Likewise, there is a focus on real estate development in Ukraine, which has a low per capita rate of commercial and retail space. Polish financial institutions, such as banks, are increasingly present in Ukraine, and the Polish Association of Credit Insurance, a source of export guarantees, is also working in Ukraine. Overall these trends are positive for the future growth of exports but have not filtered down to the SME level.

Export Business Processes – The process of exporting goods from Ukraine into Poland remains a paper documentation process that requires a myriad of signatures and stamps.

- **Export Documentation** – Many of the required Ukrainian export documents are provided by or certified by a Chamber of Commerce in Ukraine. Chambers of Commerce are powerful organizations, issuing key export documentation such as certificates of origin. The Lviv Chamber of Commerce and Industry, for instance, provides 30 kinds of business services. Many of these are required services that are necessary for a business to operate, while others are services that fall into the area of business development. In the case of certificates of origin, Chamber

representatives perform physical inspections of facilities and operations to issue certificates of origin, which are required export documentation into the EU and most countries around the world. The process of requesting and receiving certificates of origin from the Chamber of Commerce is a paper-based process and requires official stamps to be valid.

- **Transportation** – While UPS is not commonly used by Ukrainian SMEs for international shipping, it is seen as a standard for business service, making its processes relevant for this analysis. A UPS courier arrives at a designated location to pick up a package and an airway bill in response to a customer’s request for transportation and delivery services. The airway bill bar code is scanned, and the shipping data is entered into the UPS system. Business data is entered through a manual process. Outgoing and incoming shipments depart and arrive on charter flights and clear Customs at Kyiv airport. Delivery in Ukraine is handled by package cars, reflecting the package size that is typical of Ukrainian UPS customers, as compared to the parcel business handled by large step vans in the United States. UPS Ukraine offers its customers Customs brokerage services and has a UPS broker stationed directly in the Customs office. All transactions are handled on paper, with some documents requiring submission of five and six copies. Once again, the standard for document verification and approval is not the signature but an official stamp. UPS estimates that 70 percent of the work involved in providing trade services is purely paperwork.

ALTERNATIVE TRANSPORT

It is not altogether true to say that Ukrainian SMEs are not using UPS services. In an interview with one small business owner, he indicated that it was common to pay UPS drivers directly for shipping a package locally.

He suggested that an informal but relatively sophisticated delivery network existed amongst UPS drivers, outside of the official UPS service.

This suggests an unrealized domestic demand for parcel business that may have a parallel in international trade.

It is likely that cost is a key factor inhibiting demand.


1. Goods consigned from (Exporter's business name, address, country) Removed for Privacy Purposes		Reference No № 3-2130-C/2 408087 ✱			
2. Goods consigned to (Consignee's name, address, country) Removed for Privacy Purposes		GENERALISED SYSTEM OF PREFERENCES CERTIFICATE OF ORIGIN (Combined declaration and certificate) FORM A Issued in..... UKRAINE <small>(country)</small> <small>See Notes overleaf</small>			
3. Means of transport and route (as far as known) Automobile: Lviv - Gross Ippener		4. For official use "EC CUMULATION"			
5. Item number	6. Marks and numbers of packages	7. Number and kind of packages; description of goods	8. Origin criterion (see Notes overleaf)	9. Gross weight or other quantity	10. Number and date of invoices
1.		Category 083; WOMAN'S JACKET : mod.J.265309 - 390pcs. order F/W52773 value manufacture 1 pcs- 5,85 EUR Total - 2574,00 EUR	"W"6104	136,89 kg	# 713 from 11.08. 2005
11. Certification It is hereby certified, on the basis of control carried out, that the declaration by the exporter is correct.		12. Declaration by the exporter The undersigned hereby declares that the above details and statements are correct; that all the goods were produced in			
THE LVIV CHAMBER OF COMMERCE & INDUSTRY  A.Koziy		UKRAINE <small>(country)</small> and that they comply with origin requirements specified for those goods in the Generalized System of Preferences for goods exported to GERMANY <small>(importing country)</small>			
Lviv 11.08.2005 <small>Place and date, signature and stamp of certifying authority</small>		Lviv 11.08.2005 N.Volkov <small>Place and date, signature of authorised signatory</small>			

Figure 3: Sample Ukrainian Certificate of Origin Issued by the Lviv Chamber of Commerce

Transportation Methods

Ukrainian Transport Practices – While Ukraine has an established freight system, the most developed modes such as rail are not the modes preferred by SMEs. The mode of choice for SMEs is highways. SMEs do not ship significant enough volumes to warrant rail service. In addition, the smallest of SMEs, traveling tourists, characteristically travel by car. Therefore, from a physical transportation standpoint, the development in SME trade is most reliant on the highway system and the passenger lanes at the border itself. Within the context of the physical infrastructure, improving these two aspects will have great impact on SME trade. However, the greatest overall needs for developing SME trade with Poland are not physical, but process and regulatory oriented.

- **Roads** – The traveling tourists are known to cross the Polish-Ukrainian border by foot and in cars to purchase and sell goods. While some of these traders are engaged in legitimate commerce, many are believed to be smugglers trafficking in alcohol, cigarettes, and gasoline. These traders are in the informal sector and do not attempt to comply with government regulations for Customs declarations. Their means of transportation is personal. True SMEs international exports travel mainly by truck on services offered by local companies. Large local companies exist, such as Orleans Trans, which has an estimated fleet of 200 trucks. Two affiliated companies, Trans King and Trans Pele, have a fleet of roughly 400 combined trucks. These larger providers are sophisticated, handling their own brokering and forwarding. The smaller entities will use contract brokers and forwarders. A small entity can be comprised of a single truck and single driver. For instance, a former UPS employee purchased a truck, received his license, and established an international trucking company. It is estimated that service from a local company is offered at one half the cost of an international brand. In order to cross the border into Poland, trucks must meet EU standards and the drivers must possess appropriate visas.
- **Air** – Large corporations make up an estimated 80 percent of customers for UPS Ukraine, whose primary method of international transportation is air. The high concentration of large corporate customers is due to the cost, which is out of reach for Ukrainian SMEs. Customers of UPS are typically shipping documents, with other

goods, such as textile samples and ICT components, making up a smaller share of deliveries. UPS does little parcel business, but they are trying to handle more.

ICT Infrastructure

ICT infrastructure has a significant impact on the ability of SMEs to conduct both domestic and cross-border commerce. Statistics vary on the number of Internet users in Ukraine and Poland, but use is consistently higher in Poland than in Ukraine.

Users in Ukraine – According to an August article in the Kyiv Post and the CIA World Factbook (2003), approximately 1 percent of Ukrainians are online. The Association of Small Business in Lviv Oblast estimates that of its 1100 association members (comprised of businesses and individuals entrepreneurs), approximately 200 are online and communicate e-mail. Demand for electronic commerce (e-Commerce) services also appears to be growing in Ukraine, as suggested by recent requests received by UPS Ukraine for access to their World Ship system. The UPS World Ship system is a software application that allows customers to generate approved shipping labels, access rates, receive proof of delivery information, generate international export documents, and track packages, among other functions. Kyiv is also home to a burgeoning e-Commerce industry that functions on the Cash on Delivery (COD) system. Companies can offer goods for sale at their company Web site. A courier who collects payment delivers the items. The use of credit cards is less common and less accepted in Ukraine compared to Poland, making full Internet commerce less feasible in the short term.

Users in Poland – The CIA World Factbook (2003) places the number of Polish Internet users closer to 25 percent of the population. The share of the telecommunications sector in Polish Gross Domestic Product (GDP) is 4.4 percent as of 2000, compared to 2.5 percent in 1996. Coverage increased from 78 users per 1000 inhabitants in 1989 to 282 in 2000. The density of the network varies from region to region, with rural areas lagging behind.

Costs and Quality – In addition to the disparity in the percentage of users in Ukraine and Poland, the cost and quality of service is also variable. Internet service costs in Poland are substantially lower than in Ukraine. An organization with offices in both Kyiv

and Warsaw reported paying four times more in Kyiv than in Warsaw for comparable Internet service. Likewise, the average Polish firm is more likely to have high-speed access, whereas the Association of Small Business in Lviv Oblast estimates that its members are using dial-up service.

Hardware and Software – The Association of Small Business in Lviv Oblast also suggests that Microsoft (MS) software products are the standard among the association members. An MS Windows 98 operating system is most common, although MS Windows XP is becoming more common. MS Windows 95 and 3.1 are not in use.

6.0 – CHALLENGES AND IMPEDIMENTS

Based on the statements of interviewees, the single greatest problem facing the growth of cross-border trade is the existing institutional framework. It was clear that Ukraine would fall farther and farther behind its Polish EU neighbor if it did not take immediate and aggressive steps to overhaul its outmoded institutional framework. Of less significance was the quality of the physical infrastructure, only because the institutional framework was deemed more deficient. Most interviewees believed that the state of the ICT infrastructure for trade trailed the institutional framework and physical infrastructure in importance, although they recognized that it too was lacking. This alone may be the single greatest impediment to deploying ICT to support trade development—a lack of recognition of how integral ICT infrastructure is to the successful improvement of the institutional framework and physical infrastructure for trade, while also supplying its own independent benefits for trade growth.

After being interviewed, many interviewees were more able to see the possibilities that ICT offered for supporting and driving some of the necessary changes that would spur trade growth and prosperity, including e-Commerce and e-Government. Aside from recognition, there are several other obstacles that stand in the way of successful ICT deployment to support trade development.

Electronic Signatures – One key challenge is that electronic signatures are not accepted in Ukraine. Conflicting information was provided as to whether the necessary

law was in place, but it clearly was not in practice. Even the use of original handwritten signatures is not deemed sufficient in some cases. The predominantly accepted verification tool is a stamp.

Paper Mentality – All procedures are almost exclusively paper-based. Many different forms, and copies of these forms, are the norm for all government-related processes. Interviews concluded that this mentality is well entrenched and is an obstacle to ICT deployment within government. Business is more willing and ready to change but lacks the authority to alter the way it interacts with government. Businesses can and are beginning to change the way they do businesses with each other. These changes appear to be beginning with larger companies.

ICT Capacity – The institutional capacity to adopt and deploy ICT is a key challenge. The idea of broadly deploying ICT infrastructure is not widely accepted within government. Even though accepted at the leadership level, there is little willingness and capacity to adopt ICT at the rank and file level. This is an unfortunate remnant of the Soviet system. While leaders at the most senior levels have changed, those staffing the bureaucracy have remained the same through changes of government. There appears to be a much greater interest in and capacity to adopt ICT solutions amongst businesses and business organizations as evidenced by discussions with UPS, the Lviv Chamber of Commerce, and the Association of Small Business.

Professional Capacity Gap – There is a gap in the professional capacity to adopt ICT infrastructure. There will need to be significant investment in professional capacity development and training in order for staff to use and work in a modern ICT environment.

Lack of Standardization – There is a lack of standardization at the border, specifically with regard to regular changes to forms. Some viewed this as a challenge to ICT deployment in that it was not feasible to develop technology enablers in a system that constantly changes. The reality may be the opposite. Technology enables change management, allowing users to quickly adapt to changes in forms and procedures.

7.0 - RECOMMENDED ICT SOLUTIONS TO ENHANCE CROSS BORDER TRADE AND ITS BENEFITS

The purpose of this section is to outline a specific set of ICT recommendations that business and government can pursue to enhance cross-border trade. Only ICT recommendations are within the scope of this report, and the recommendations presented herein are commensurate with actual needs identified in the course of the assessment research and interviews. The recommendations are intended for implementation mainly in Ukraine because the starting point for this report was how to improve the cross-border trade environment for Ukrainian SMEs. Only some of these recommendations will have parallels in Poland due to its more advanced ICT infrastructure and EU-compliant policies.

Recommendations are organized into three tiers based on their timetable for implementation. Top tier recommendation is one that can be undertaken immediately, if there is willingness from the entities to undertake it. The top tier recommendation is targeted at the private sector. The middle tier recommendation can be undertaken with more lead time and will require collaboration among government agencies, nationally and internationally. The bottom tier recommendation is foundational and will require a longer-term approach. Business and government will have to collaborate and fundamentally alter the way they work together to increase exports and improve the climate for business.

1. Top Tier Recommendation: Use the Internet to gain efficiency and lower the costs of standard businesses processes, such as setting up trade shipments, requesting certificates of origin, and sending customer invoices.
2. Middle Tier Recommendation: Take advantage of the Internet and leading edge technology to make existing border processes electronic, allowing for information sharing and reduced wait times.
3. Bottom Tier Recommendation: Modernize that which impacts ICT and trade, from policy to bureaucracy; so that new processes can be created that

fundamentally alter the way businesses interact with their government. ICT can be used as a means to support and institutionalize these changes.

Top Tier Recommendation – Businesses and business organizations interact with each other in ways that can be optimized by instituting e-Commerce principals and net-centric approaches¹⁰. At the business-to-business level there is both the demand for ICT solutions and the ability to deploy them. While this ability is not universal across the Ukrainian business sector, it is more developed in the private sector than in the government sector. The top tier recommendation focuses on optimizing the international supply chain. As Thomas Friedman notes in his book *The World is Flat*, increasing efficiencies in the supply chain is one of the world's flatteners or playing field levelers. ICT is the core of many of these flatteners, as described by Friedman and has the ability to make Ukraine a more attractive and successful exporter. Three specific supply chain-optimizing opportunities are apparent.

- **Businesses** – One of the challenges for Ukrainian SMEs is the lack of ICT infrastructure that currently exists. Yet, in order to satisfy their customers outside of Ukraine, and particularly in the EU, they will have to adopt e-Commerce practices in order to be more competitive. Therefore, the challenge is to identify solutions that can be deployed with current infrastructure, assuming no short-term upgrades, and that will grow with them as their ICT infrastructure improves. Another issue will be cost due to the limited financing available for SMEs to make investments in ICT. Thus, the best solution for SMEs is one that employs a net-centric approach using virtual relational databases on the Internet to store and transfer information in multiple formats. By using the Internet as the storage location for business information, bandwidth and connection speeds are not major factors for accessing data, an important consideration for SMEs with predominantly dial-up connections. The Internet as a storage location is also attractive for users with older computers that have limited storage and computing power. The authors of this report are aware of at least one basic net-centric solution that can be implemented for less than \$3000 USD per license. A net-centric approach would allow Ukrainian SMEs customers

¹⁰ Technology moves from an application-centric to a data-centric paradigm, thereby allowing users access to applications and services through Web services. The information environment is comprised of interoperable computing and communication components, making use of both static and dynamic data.

and trading partners to access their on-hand balances, for instance, around-the-clock, regardless of whether an SME was connected to the Internet. It would also allow a trading partner to receive information, such as an invoice, from an SME in a format that integrated directly with the trading partner's own software systems. All of these functions, once migrated to the Internet, not only open the door to new trading partners for Ukrainian SMEs but also can have a tremendous impact on costs, efficiencies, and customer retention.

- **Shippers** – As noted earlier, UPS is receiving requests for e-Commerce from its client base. UPS Ukraine is in the process of rolling out its World Ship system to Ukrainian customers. UPS is well known around the world for its ability to track packages, and this ability will soon be available to Ukrainian customers at their desktops. In addition to identifying the location of packages, there is an opportunity to identify the content of these packages. This new opportunity for identifying contents stems from the ability to integrate business information into the UPS system, in addition to the logistics information it already gathers. Using net-centric technology, this information can be gathered directly from the sender's supply chain documents, such as purchase orders, merged with the locational package information and sent electronically to freight forwarders, Customs brokers, and customers. This tighter supply chain integration improves the efficiency of the supply chain, creating cost, timing, and efficiency advantages for both customers and suppliers.
- **Chambers of Commerce** – During the discussions with the Lviv Chamber of Commerce, the opportunity to e-enable many of the existing services that they offer was noted. For instance, certificates of origin are mandatory documents for exported goods. Today, exporters make a hard copy request for a certificate of origin to be issued by the Chamber of Commerce. Using the Internet, software, and or net-centric technology, that request could be made electronically. Information could be transferred to the Chamber of Commerce electronically from an exporter's supply chain documents, such as a purchase order, and combined with other information from the Chamber of Commerce database, such as the exporter's address (a required field on the certificate of origin, see Figure 3). The Chamber of Commerce could issue the certificate of origin in a paper format with appropriate seals and

signatures, as is the current standard, and electronically notify the exporter of its availability for pick up or delivery to its office. This is an example of just one of the ways the current services of the Lviv Chamber of Commerce could benefit from e-Commerce principles.

Middle Tier Recommendation – The Ukrainian Government can take existing information and make it electronic, a move that is already underway according to one border official that was interviewed at the Rava-Ruska border. Today’s Ukrainian border processes are entirely manual. However, a border official indicated that the government was installing computers at the border to allow for electronic record keeping. This alone will be an improvement over the manual system; however, it can be further improved using net-centric processes that allow for information sharing. There are numerous border agencies that must function in unison at the border to achieve maximum productivity including Customs, Immigration, Agricultural Inspections and Weights and Measures. Efficiencies are not maximized by having each use a computer or system independently of the other agencies. For instance, any truck inspection is likely to record the truck’s basic data, such as country of origin, company, license tag and driver. However, there is no need for this data to be recorded separately four times. Indeed, not only is it more efficient to record the data only once in a shared virtual database, but if all the information from the four agencies is linked to the tag number, then the government could have a superior understanding of the goods, practices and procedures at its border. This information could be used to better identify smuggling or improve border operations scheduling to cut down on wait times. For instance, if the bulk of agricultural products move across the border in the morning hours, agricultural inspectors could be concentrated on the morning shift. If net-centric technology is employed, the same information sharing practices could be enabled when requests were made for information across the Polish-Ukrainian border, regardless of what system Polish officials were using. Today’s requests are handled manually, but this process could, with appropriate security, be made electronically, thereby streamlining cross-border operations and reducing wait-times. Net-centric processes would allow Ukrainian border officials to maintain their system of choice while being interoperable with the EU-compliant systems on some of its borders and a variety of other systems at its non-EU borders. Since the Ukrainian Government is already addressing the paper mentality, ICT capacity of its employees, and upgrading infrastructure by implementing a

computerized system at the border, a further move to net-centric approaches will not be difficult to achieve. It is, however, likely to take time to implement these initial changes before further changes are undertaken.

Bottom Tier Recommendation – As noted earlier, the bottom tier recommendation is aptly named because it first requires change in foundations or institutions. Policies will need to change in order to weave all the above-mentioned processes together into a truly seamless supply chain, where government becomes a collaborative trading partner with business and promotes exports and the prosperity of its citizens. In particular, the government will have to adopt e-Commerce as standard procedure, allowing for electronic signatures and other enabling technologies. Once the Ukrainian Government accepts electronic documents as legitimate submissions from business for official purposes, an entirely new set of possibilities exists. For instance, SMEs could take a customer's electronic purchase order and turn it into an electronic request for a certificate of origin from its Chamber of Commerce. Once issued, the Chamber of Commerce could provide an electronic certificate of origin to the exporter. The exporter would then send it electronically along with all of its shipping and Customs clearance documents to its shipper, Customs, freight forwarder, customer, etc. Government could receive electronic advanced notification of shipments that would be coming through the border, allowing it to develop a pre-clearance procedure. Pre-clearance procedures could take advantage of other leading-edge technologies, such as radio frequency identification tags and biometric authentication, to both secure shipments and gather information about the content of trucks using scans and fingerprint readers. When incorporated into a net-centric approach, it creates a powerful tool for governments to increase tax and duty collection, improve security, increase the verifiability of transactions, and still move shipments through its borders more quickly. The speedy movement of goods is critical to businesses, since time is money in the most real sense.

8.0 - CONCLUSIONS AND RECOMMENDATIONS

In conducting this assessment, the authors confirmed findings from previous work in cross-border trade facilitation, namely the existence of three key focus areas for improving cross-border trade—the institutional framework, physical infrastructure and ICT

infrastructure. While this assessment focused on recommendations to improve the ICT infrastructure, it is once again true that the three areas are strongly intertwined. The importance of improving the three with an eye toward increasing trade between Poland and Ukraine cannot be sufficiently stressed. If the last fifty years of history is any indication, increasing trade is the most certain way to achieving increased prosperity and improved living standards for an entire nation. Following are the assessment's specific findings:

Finding Number 1 – The level of trade between Poland and Ukraine is low but increasing. It displays significant potential for the future. Integration between the two economies in the form of border industries, FDI flows, and cross-border institutions, among others, suggests an increasing rather than decreasing level of interdependency. While the Polish integration into the EU may have caused a downward trend in trade due to changed regulations and standards, current activity is seeing the reversal of that trend and presenting significant new opportunities for both Polish and Ukrainian companies.

Finding Number 2 – SMEs tend to be domestically focused and the majority of international trade is conducted by larger business entities. With a growing economy at home, the choice to focus on a local market is a logical one for SMEs that are less able to deal with the complexities and costs of international trade. Those SMEs involved in international trade tend to be near a border, and though their proximate markets happen to be across an international border, their markets are in many ways still local. Large companies will lead the way in cross-border trade, and these capabilities will eventually filter down to SMEs at large. This diffusion of knowledge and abilities is most likely to happen through business institutions and trade associations.

LEGACY SOVIET SYSTEMS

The current Ukrainian government structure contains many of the issues and challenges inherited from the former Soviet Union. A legacy of the communist past, it is plagued with corruption, bureaucracy, and vested interests. Decision making is quite cumbersome with unclear responsibilities among government agencies.

Finding Number 3 – The greatest challenge to Ukrainian exports to Poland is an outdated institutional framework that is exacerbated by Polish EU membership. Ukraine inherited many of the old Soviet governmental structures, with its concomitant problems

and bureaucracy that greatly hamper its progress toward becoming a modern exporting nation. These challenges typically take three forms as noted by the Bleyzer Foundation—corruption, bureaucracy, and vested interests. Before Poland joined the EU, its processes were more similar to that of Ukraine. However, with the wholesale change making many Polish policies EU-compliant, and thus more modern and transparent, the flaws in Ukrainian practices are more apparent and difficult to knit into a trading relationship with Poland.

Finding Number 4 – ICT solutions can improve the chances for the success of pending improvements to the Ukrainian institutional framework, such as Customs modernization. The installation of computers at the border crossing will support the professionalization of the bureaucracy and efforts to limit corruption. For instance, when transactions are handled electronically with less human interaction, the opportunity for bribery payments is decreased. Thus, ICT solutions can improve the chances the government-led institutional framework changes have of succeeding.

Finding Number 5 – Business-to-business ICT solutions will improve the efficiency of SME's cross-border trade independent of reforms undertaken by government. The process of Ukrainian Government modernization is likely to be a long one. However, businesses and business associations can work independently of government to make themselves more efficient and attractive export partners within the framework that exists today. There is evidence of a strong entrepreneurial quality within Ukrainian companies and organizations that have already expressed an interest and willingness to undertake such activities. It is the recommendation of the authors that this willingness and interest be harnessed to maintain the momentum for a larger wave of change. Ukrainian Government is currently moving down the path of reform. Business can lead this process by continuing to innovate while achieving its own economic and export gains in the short term.

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